4 PAWS FOR ABILITY, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
4 Paws for Ability, Inc.
Xenia, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of 4 Paws for Ability, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 4 Paws for Ability, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Battelle & Battelle LLP

August 26, 2013

4 PAWS FOR ABILITY, INC.

STATEMENT OF FINANCIAL POSITION

A S S E T S	*December 31* 2012	*December 31* 2011
Cash and cash equivalents	$ 1,271,333	$ 522,296
Pledge receivable	21,040	508,148
Other assets	40,624	21,824
Land, building and equipment, net	487,884	427,575
Total assets	$ 1,820,881	$ 1,479,843

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable and accrued expenses	$ 74,535	$ 45,817
Mortgage payable	204,751	211,896
Total liabilities	279,286	257,713
NET ASSETS		
Unrestricted	1,301,855	986,648
Temporarily restricted	239,740	235,482
Total net assets	1,541,595	1,222,130
Total liabilities and net assets	$ 1,820,881	$ 1,479,843

The accompanying notes are an integral part of the financial statements.

4 PAWS FOR ABILITY, INC.

STATEMENT OF ACTIVITIES

	Year Ended December 31	
	2012	***2011***
Changes in unrestricted net assets:		
Revenue:		
Unrestricted donations	$ 1,705,563	$ 1,867,722
Sales and fees	30,600	34,838
Other income	1,726	4,288
Total revenue	1,737,889	1,906,848
Expenses:		
Dog training expenses	460,734	363,542
Dog care expenses	688,513	772,294
Administrative expenses	103,289	126,486
Fundraising and program development expenses	170,146	165,417
Total expenses	1,422,682	1,427,739
Change in unrestricted net assets	315,207	479,109
Changes in temporarily restricted net assets:		
Contributions	167,425	331,005
Net assets released from restrictions	(163,167)	(95,523)
Change in temporarily restricted net assets	4,258	235,482
CHANGE IN NET ASSETS	319,465	714,591
Net assets at beginning of year	1,222,130	507,539
NET ASSETS AT END OF YEAR	$ 1,541,595	$ 1,222,130

The accompanying notes are an integral part of the financial statements.

4 PAWS FOR ABILITY, INC.

STATEMENT OF CASH FLOWS

	Year Ended December 31	
	2012	*2011*
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 319,465	$ 714,591
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	34,271	35,372
Loss on building related to hail damage	-	54,818
Changes in assets and liabilities:		
Pledge receivable	487,108	(508,148)
Other assets	(18,800)	(17,892)
Accounts payable and accrued expenses	28,718	(5,335)
Net cash provided by operating activities	850,762	273,406
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(94,580)	(9,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(7,145)	(6,695)
NET INCREASE IN CASH AND CASH EQUIVALENTS	749,037	257,196
Cash and cash equivalents, beginning of year	522,296	265,100
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,271,333	$ 522,296

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	$ 13,563	$ 14,011

The accompanying notes are an integral part of the financial statements.

NOTE 1 – NATURE OF OPERATIONS

4 Paws for Ability, Inc. (4 Paws) is a nonprofit organization founded in 1998. 4 Paws became a 501(c)(3) organization in 2000. 4 Paws is governed by an independent, uncompensated Board of Directors.

4 Paws provides specially trained service dogs for companionship and assistance with independent living to individuals with physical and hidden disabilities. Training is recipient-specific for Autism Assistance, Mobility Assistance, Signal/Hearing Ear, Seizure Assistance, and Multi-purpose Service Dogs. 4 Paws' service dogs qualify as durable medical equipment under the Americans with Disabilities Act of 1990 (ADA).

4 Paws is unlike other service dog organizations in that it does not discriminate or limit placements or applicant acceptance based upon age or disability, having approximately 98% of placements for children under the age of ten years. Based in Xenia, Ohio, 4 Paws has grown from a regional provider to an international organization placing service dogs in almost all 50 states and Canada, Australia, New Zealand and Germany.

4 Paws benefits from an extensive network of volunteers, including foster families who care for and socialize dogs prior to their training, prison inmates who socialize and train dogs in basic commands as part of the Rover Rehab Program, and other volunteers who help socialize and care for dogs.

Funding of a 4 Paws' service dog is the responsibility of the applicant. Applicants typically use fundraising activities to gather these funds and 4 Paws assists the applicant as necessary. All donations made to 4 Paws by or on behalf of applicants are unrestricted, as governed by the contract between 4 Paws and the applicant. Costs of an individual service dog average $22,000 and vary based upon the level of training required for the specific applicant's need. Training of a fully capable service dog takes approximately 9 to 12 months plus ten days to train the recipient with his or her dog.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements are prepared on the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Cash and Cash Equivalents – Cash and cash equivalents include deposits on demand with financial institutions, and money market funds.

Pledge Receivable – At December 31, 2011, the Organization was named beneficiary of a charitable trust which was primarily received in 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Building, and Equipment – Land, building, and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method based on the half-year convention over the estimated useful lives of the assets ranging from 3 to 39 years. See also Note 3 to the financial statements.

Federal Income Taxes – The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. With few exceptions, the Organization's federal information returns are no longer subject to examination by the Internal Revenue Service for years before 2009.

Inventories – Inventories are carried at the lower of cost or market, less anticipated carrying costs. Inventories of dog food and supplies are included within other assets in the accompanying statement of financial position. As there is no active market for partially-trained service dogs, and fully-trained service dogs are placed within days of the completion of their training, no asset for service dogs inventory has been recorded in the accompanying statement of financial position because the carrying costs for a partially-trained service dog generally approximates or exceeds its market value at the statement of financial position date.

Unrestricted Donations – Donations are recorded when received. Funding of a 4 Paws' service dog is the responsibility of the applicant. Applicants typically use fundraising activities to gather these funds and 4 Paws assists the applicant as necessary. All donations made to 4 Paws by or on behalf of applicants are unrestricted, as governed by the contract between 4 Paws and the applicant. 4 Paws has no obligation to provide dogs to applicants, and applicants have no obligation to donate to 4 Paws. Accordingly, no contributions receivable or unearned revenue has been recorded in the accompanying financial statements.

Donations of dogs, dog food, dog supplies and other goods are recorded as unrestricted donations at the estimated fair value of the items donated. Donations of volunteer time and professional services typically include technology implementation, accounting services, and legal advice. In accordance with accounting guidance, such donations of professional services have been recorded as unrestricted donations in the accompanying financial statements at their estimated fair values for years ended December 31, 2012 and 2011. The value of certain donated volunteer services does not meet the criteria for recognition under existing accounting standards and, accordingly, are not reflected in the accompanying financial statements.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those whose use by 4 Paws has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from restriction as the specified time period passes or the expenditures related to the restricted purpose are made. 4 Paws' policy is to treat investment income earned on temporarily restricted net assets as temporarily restricted for the same purpose or time period as the underlying net assets.

At December 31, 2012, $157,449 ($105,524 at December 31, 2011) of 4 Paws' temporarily restricted net assets related to 4 Paws' program to benefit disabled veterans, and $82,291 ($129,958 at December 31, 2011) related to grants restricted for the benefit of disabled children in specified geographic areas. The temporary restrictions placed by donors on restricted donations typically stem from grants designated for specific portions of 4 Paws' mission, such as trainer salaries, costs to train dogs for clients from certain geographic areas, and the purchase of dog food and veterinary care and equipment. As 4 Paws has recurring and frequent expenditure for these types of goods and services, the restrictions on such designated grants are typically met soon after receipt of the funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Net Assets – As of December 31, 2012, 4 Paws was the named beneficiary of several additional charitable trusts. As sufficient information was not available as of the date of these financial statements to determine the specific nature of the trust and the fair value of 4 Paws' beneficial interest, no amounts for this beneficial interest have been included in the accompanying financial statements.

Sales and Fees – Sales and fees are recorded when received. Sales reflect sales of companion dogs that do not graduate from 4 Paws' rigorous training programs as well as sales of t-shirts and other promotional items. Fees reflect nominal amounts charged to applicants for service dogs. Fees may be waived at the discretion of 4 Paws in certain circumstances.

Dog Training Expenses – Dog training expenses reflect all costs directly related to training service dogs, including salaries and benefits for 4 Paws' expert dog trainers, training supplies and expenses incurred training clients to use their new service dogs. Dog training expenses also include a reasonable allocation of indirect costs associated with maintaining 4 Paws' training facility. Dog training expenses are recorded when incurred.

Dog Care Expenses – Dog care expenses reflect all costs directly related to caring for dogs, including food, veterinary care, cleaning supplies and salaries and benefits for 4 Paws' dog care staff. Dog care expenses also include a reasonable allocation of indirect costs associated with maintaining 4 Paws' facility. Dog care expenses are recorded when incurred.

Administrative Expenses – Administrative expenses reflect all costs directly related to managing 4 Paws as well as a reasonable allocation of indirect costs associated with maintaining 4 Paws' offices located at the training facility. Administrative expenses are recorded when incurred.

Fundraising and Program Development Expenses – Program development expenses include all costs directly related to reaching potential applicants and making them aware of the benefits service dogs can provide to individuals with certain disabilities, as well as a reasonable allocation of indirect costs associated with maintaining 4 Paws' offices located at the training facility. Fundraising expenses include all costs expended on fundraising events and initiatives, as well as a reasonable allocation of indirect costs associated with maintaining 4 Paws' offices located at the training facility. Fundraising and program development expenses are recorded when incurred.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include certain accounting conventions such as straight-line depreciation and the use of the effective interest method for determining interest expense. The financial statements also include estimates of the fair value of contributed goods and services estimated based on market transactions for similar goods and services.

Concentrations – 4 Paws had no significant concentrations of contributors or asset custodians at or for the years ended December 31, 2012 or 2011. 4 Paws' cash management policy is to maintain balances below FDIC insurance limits in each deposit account in order to minimize custodial credit risk. At December 31, 2012, due to the timing of receipt of a large donation, 4 Paws had a significant concentration of cash and cash equivalents held with one custodian in excess of FDIC insurance limits.

NOTE 3 – LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment at December 31, 2012 and 2011, consisted of the following:

	December 31, 2012		
	Cost	***Accumulated Depreciation***	***Net***
Land	$ 68,230	$ -	$ 68,230
Buildings	423,876	70,585	353,291
Automobiles	124,642	90,976	33,666
Equipment	92,672	59,975	32,697
Total	$ 709,420	$ 221,536	$ 487,884

	December 31, 2011		
	Cost	***Accumulated Depreciation***	***Net***
Land	$ 68,230	$ -	$ 68,230
Buildings	364,890	60,093	304,797
Automobiles	99,858	78,760	21,098
Equipment	81,862	48,412	33,450
Total	$ 614,840	$ 187,265	$ 427,575

Land and buildings include 4 Paws' two adjacent properties in Xenia, Ohio, used for dog training activities. Land is not depreciated. Buildings include expenditures necessary to renovate 4 Paws' properties for use as dog training facilities. Automobiles include vehicles used by 4 Paws to transport dogs. Equipment includes computer equipment, appliances, and furniture and fixtures used at 4 Paws' facility for dog training, dog care, administrative, and program development activities.

During 2011, the roofs of 4 Paws' buildings in Xenia, Ohio, were damaged by storms. The Organization received insurance proceeds to repair the damage in 2011.

NOTE 4 – MORTGAGE OBLIGATION PAYABLE

In 2009, 4 Paws entered into a refinanced mortgage of its primary training facility. The mortgage has a fixed annual interest rate of 6.5% for the first five years, an original principal of $229,133 and a balloon payment due February 14, 2014. The mortgage is collateralized by 4 Paws' property in Xenia, Ohio.

At December 31, 2012, payments due over each of the next two years are as follows:

Year Ended December 31	
2013	$ 20,707
2014	200,413
Total principal and interest	221,120
Less: interest	16,369
Mortgage payable	$ 204,751

NOTE 5 - SUBSEQUENT EVENTS

In 2013, 4 Paws paid in full the mortgage payable that existed at December 31, 2012.

Subsequent events have been evaluated through August 26, 2013, the date the financial statements were available to be issued.