

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2016 and 2015 and for the
Years then Ended with Independent Auditor's Report



Business Minds. Minding Your Business.

4 Paws for Ability, Inc.

Financial Statements

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Years then Ended with Independent Auditor's Report*

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BUSINESS MINDS. MINDING YOUR BUSINESS.

Independent Auditor's Report

Board of Directors
4 Paws for Ability, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of 4 Paws for Ability, Inc., a nonprofit organization, which comprise the statements of financial position as of December 31, 2016 and 2015, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 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, 2016 and 2015, and the change 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.

Brixey & Meyer

Brixey & Meyer, Inc.
Miamisburg, Ohio
June 29, 2017

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 1,975,680	\$ 1,669,761
Investments	5,395	-
Inventory	125,304	86,908
Other assets	1,871	1,263
Total current assets	2,108,250	1,757,932
Land, buildings and equipment, net	3,772,037	3,591,609
Total assets	\$ 5,880,287	\$ 5,349,541
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 150,782	\$ 167,643
Mortgage payable, current portion	77,573	74,141
Total current liabilities	228,355	241,784
Mortgage payable, net of current portion	2,151,821	2,229,359
Total liabilities	2,380,176	2,471,143
 Net Assets		
Unrestricted	3,322,090	2,644,622
Temporarily restricted	178,021	233,776
Total net assets	3,500,111	2,878,398
Total liabilities and net assets	\$ 5,880,287	\$ 5,349,541

4 PAWS FOR ABILITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
Revenue:				
Program service fees	\$ 2,477,886	\$ 187,500	\$ 2,665,386	\$ 1,756,800
Donations	1,221,132	-	1,221,132	970,852
Sales and fees	18,990	-	18,990	27,500
Other income	16,251	-	16,251	2,990
Net assets released from restrictions	243,255	(243,255)	-	-
Total revenue	<u>3,977,514</u>	<u>(55,755)</u>	<u>3,921,759</u>	<u>2,758,142</u>
Expenses:				
Dog care	1,813,383	-	1,813,383	1,568,982
Dog training	878,401	-	878,401	736,995
Administrative	263,393	-	263,393	205,878
Fundraising and program development	156,813	-	156,813	132,722
Depreciation expense	188,056	-	188,056	74,066
Total expenses	<u>3,300,046</u>	<u>-</u>	<u>3,300,046</u>	<u>2,718,643</u>
Change in net assets	677,468	(55,755)	621,713	39,499
Net assets, beginning of year	2,644,622	233,776	2,878,398	2,838,899
Net assets, end of year	<u>\$ 3,322,090</u>	<u>\$ 178,021</u>	<u>\$ 3,500,111</u>	<u>\$ 2,878,398</u>

4 PAWS FOR ABILITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total 2015
Revenue:			
Program service fees	\$ 1,506,774	\$ 250,026	\$ 1,756,800
Donations	877,526	93,326	970,852
Sales and fees	27,500	-	27,500
Other income	2,990	-	2,990
Net assets released from restrictions	342,944	(342,944)	-
Total revenue	2,757,734	408	2,758,142
Expenses:			
Dog care	1,568,982	-	1,568,982
Dog training	736,995	-	736,995
Administrative	205,878	-	205,878
Fundraising and program development	132,722	-	132,722
Depreciation expense	74,066	-	74,066
Total expenses	2,718,643	-	2,718,643
Change in net assets	39,091	408	39,499
Net assets, beginning of year	2,605,531	233,368	2,838,899
Net assets, end of year	\$ 2,644,622	\$ 233,776	\$ 2,878,398

4 PAWS FOR ABILITY, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
Cash flows from operating activities		
Changes in net assets	\$ 621,713	\$ 39,499
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	188,056	74,065
Changes in assets and liabilities:		
Investments	(5,395)	-
Inventory and other assets	(39,004)	(7,336)
Accounts payable and accrued expenses	(16,861)	(395,522)
Net cash provided by (used in) operating activities	748,509	(289,294)
Cash flows from investing activities		
Purchase of land, buildings, and equipment	(368,484)	(2,609,848)
Net cash used in investing activities	(368,484)	(2,609,848)
Cash flows from financing activities		
Repayment of mortgage payable	(74,106)	-
Proceeds from long-term debt	-	2,303,500
Net cash (used in) provided by financing activities	(74,106)	2,303,500
Net increase (decrease) in cash and cash equivalents	305,919	(595,642)
Cash and cash equivalents, beginning of year	1,669,761	2,265,403
Cash and cash equivalents, end of year	\$ 1,975,680	\$ 1,669,761

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:		
Interest	\$ 95,053	\$ 33,385

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS

4 Paws for Ability, Inc. (“4 Paws” or the “Organization”) 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).

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 (U.S. GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Cash and Cash Equivalents

Cash and cash equivalents include deposits on demand with financial institutions and money market funds. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor at each financial institution. As of December 31, 2016 and 2015, 4 Paws’ uninsured cash balance was \$1,748,657 and \$1,427,000, respectively. The carrying value of cash approximates fair value.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years. See also Note 3 to the financial statements.

Inventories

Inventories are carried at the lower of cost or market and consist of dog food and miscellaneous dog care supplies. 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 statements of financial position.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Service Fees

The Organization provides service dogs to families in exchange for a predetermined fee. The fee charged to families is significantly less than the expenses incurred to identify, shelter, care for, train, and supply the service dog. Fee revenues received from recipients of dogs are recorded as program service fee on the Organization's statement of activities as of and for the year ended December 31, 2016 and 2015.

Unrestricted Donations

Donations are recorded when received. The Organization has not received any long-term funding commitments or unconditional promises to give, 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, 2016 and 2015. 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.

As of December 31, 2016 and 2015, temporarily restricted net assets related to 4 Paws' program to benefit disabled veterans was \$25,000. Temporarily restricted net assets related to grants restricted for the benefit of disabled children in specified geographic areas was \$153,021 and \$208,776 as of December 31, 2016 and 2015, respectively. The temporary restrictions placed by donors on restricted donations typically stem from grants designated for specific portion 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 expenditures for these types of goods and services, the restriction on such designated grants are typically met soon after receipt of the funds.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an allocation of indirect costs associated with maintaining 4 Paws' training facility. Dog training expenses are recognized as 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 recognized as incurred.

Administrative Expenses

Administrative expenses reflect all costs directly related to managing 4 Paws as well as an allocation of indirect costs associated with maintaining 4 Paws' offices located at the training facility. Administrative expenses are recognized as incurred.

Fundraising and Program Development Expenses

Fundraising and 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 an allocation of indirect costs associated with maintaining 4 Paws' offices located at the training facility. Fundraising and program development expenses are recognized as incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value

ASC 820 – *Fair Value Measurements* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." The standard will apply one comprehensive revenue recognition model across all contracts, entities and sectors. The core principal of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Once effective, this ASU will replace most of the existing revenue recognition requirements in U.S. GAAP. This update is effective for annual reporting periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019. The Organization is currently assessing the effect that adoption of the new standard, including possible transition alternatives, will have on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"). The standard will improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The core principal of the new standard is to require that not-for-profit entities present on the face of the statement of financial position amounts for two classes of net assets rather than the currently required three classes. The new standard will also provide for enhanced disclosures about amounts and purposes for designations, appropriations and other self-imposed restrictions, liquidity, the ability of a not-for-profit entity's financial assets to meet short-term cash needs and underwater endowment funds. This update is effective for annual reporting periods beginning after December 15, 2017, including interim period with annual reporting periods after December 15, 2018. The Organization is currently assessing the effect that adoption of ASU 2016-14, including possible transition alternatives, will have on its financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3 – LAND, BUILDINGS, AND EQUIPMENT

Land, building, and equipment consist of the following:

	December 31,	
	2016	2015
Land	\$ 121,376	\$ 121,376
Buildings	3,604,373	3,255,935
Automobiles	203,057	203,057
Equipment	390,843	370,797
Total	4,319,649	3,951,165
Accumulated depreciation	(547,612)	(359,556)
Land, buildings, and equipment, net	<u>\$ 3,772,037</u>	<u>\$ 3,591,609</u>

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.

NOTE 4 – MORTGAGE PAYABLE

In August 2014, 4 Paws entered into a construction loan agreement with Huntington National Bank (the 2014 Mortgage Note). In accordance with the loan agreement, on December 10, 2015, the conversion date, as defined by the 2014 Mortgage Note, the Organization’s ability to withdrawal against the 2014 Mortgage Note was suspended and the principal balance became fixed at \$2,303,500. Beginning in January 2016, 4 Paws was required to make monthly principal and interest payments in the amount of \$14,110, with interest fixed at a rate of 4.125% per annum, and a balloon payment due in December 2024. The 2014 Mortgage Note matures on December 10, 2024, and the loan is secured by the Organization’s buildings and land.

Future maturities of the 2014 Mortgage Note are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 77,573
2018	80,880
2019	84,329
2020	87,691
2021	91,662
Thereafter	1,807,259
Total	<u>\$ 2,229,394</u>

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 – MORTGAGE PAYABLE (Continued)

The 2014 Mortgage Note contains certain non-financial and financial covenants that require, among other things, maintenance of a debt service coverage ratio, certain liquidity requirements and submission of the Organization's audited financial statements within 180 days of the fiscal year-end, as defined within the agreement.

NOTE 5 – TAX STATUS

The Internal Revenue Service has confirmed that 4 Paws qualifies as a tax-exempt private foundation under Section 501(c)(3) of the Internal Revenue Code. 4 Paws is not subject to income taxes given it operates exclusively for charitable purposes.

4 Paws has determined that there are no uncertain tax positions as of December 31, 2016 and 2015. As such, there has been no interest or penalties recognized in 4 Paws' statements of activities or accrued for on 4 Paws' statements of financial position as of and for the years ended December 31, 2016 and 2015.

The federal informational returns for 4 Paws for years ending 2013 to the present are subject to examination by taxing authorities.

NOTE 6 – INVESTMENTS

ASC 820, *Fair Value Measurements and Disclosures*, provides enhanced guidance for using fair value to measure assets and liabilities. 4 Paws records its investments at their current fair values based on quoted market prices in active markets for identical assets which represents Level 1 criteria as defined in ASC 820. Investments are comprised of U.S. equity mutual funds. As of December 31, 2016, the company held mutual fund investments of \$5,395. The Organization received interest and dividend income of \$5 for the year ended December 31, 2016.

NOTE 7 – SUBSEQUENT EVENTS

In connection with the audit of 4 Paws' financial statements as of and for the year ended December 31, 2016, events and transactions subsequent to December 31, 2016 and through June 29, 2017, which is the date on which the financial statements are available to be issued, have been evaluated by 4 Paws for possible adjustment and/or disclosure. No subsequent events requiring financial statement adjustment and/or disclosure have been identified.