4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2015 and 2014 and for the
Years then Ended with Independent Auditor's Report

Brixey & Meyer

Business Minds. Minding Your Business.

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2015 and 2014 and for the 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 statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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.

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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, 2015, and the change in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2014 financial statements of 4 Paws for Ability, Inc. were audited by other auditors whose report dated July 9, 2015, stated, that, based on their audit, they were not aware of any material modifications that should be made to those statements for them to be in accordance with auditing standards generally accepted in the United States of America.

Brixey & Meyer

Brixey & Meyer, Inc.
Miamisburg, Ohio
July 27, 2016

4 Paws for Ability, Inc.

Statements of Financial Position

	December 31, 2015		December 31, 2014	
Assets				
Cash and cash equivalents	$	1,669,761	$	2,265,403
Inventory		86,908		72,000
Other assets		1,263		8,835
Total current assets		1,757,932		2,346,238
Land, building and equipment, net		3,591,609		1,055,826
Total assets	$	5,349,541	$	3,402,064
Liabilites and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	167,643	$	563,165
Mortgage payable, current portion		74,141		-
Total current liabilities		241,784		563,165
Mortgage payable, net of current portion		2,229,359		-
Total liabilities		2,471,143		563,165
Net Assets				
Unrestricted		2,644,622		2,605,531
Temporarily restricted		233,776		233,368
Total net assets		2,878,398		2,838,899
Total liabilities and net assets	$	5,349,541	$	3,402,064

4 Paws for Ability, Inc.

Statement of Activities

For the year ended December 31, 2015

	Unrestricted	**Temporarily Restricted**	**Total**
Revenue:			
Donations	$ 2,384,300	$ 343,352	$ 2,727,652
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	206,788	-	206,788
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.

Statement of Activities

For the year ended December 31, 2014

	Unrestricted	Temporarily	Total
Revenue:			
Donations	$ 2,557,266	$ 165,500	$ 2,722,766
Sales and fees	14,812	-	14,812
Other income	5,937	-	5,937
Net assets released from restrictions	218,745	(218,745)	-
Total revenue	2,796,760	(53,245)	2,743,515
Expenses:			
Dog care	1,164,912	-	1,164,912
Dog training	650,830	-	650,830
Administrative	137,751	-	137,751
Fundraising and program development	184,843	-	184,843
Total expenses	2,138,336	-	2,138,336
Change in net assets	658,424	(53,245)	605,179
Net assets, beginning of year	1,947,107	286,613	2,233,720
Net assets, end of year	$ 2,605,531	$ 233,368	$ 2,838,899

4 Paws for Ability, Inc.

Statements of Cash Flows

	Years Ended December 31, 2015	2014
Cash flows from operating activities		
Changes in net assets	$ 39,499	$ 605,179
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	74,065	34,220
Changes in assets and liabilities:		
Pledge receivable	-	18,148
Inventory and other assets	(7,336)	(39,989)
Accounts payable and accrued expenses	(395,522)	47,110
Net cash (used in) provided by operating activities	(289,294)	664,668
Cash flows from investing activities		
Purchase of property and equipment	(2,609,848)	(152,178)
Net cash used in investing activities	(2,609,848)	(152,178)
Cash flows from financing activities		
Proceeds from long-term debt	2,303,500	-
Net cash provided by financing activities	2,303,500	-
Net (decrease) increase in cash and cash equivalents	(595,642)	512,490
Cash and cash equivalents, beginning of year	2,265,403	1,752,913
Cash and cash equivalents, end of year	$ 1,669,761	$ 2,265,403

SUPPLEMENTAL CASH FLOW INFORMATION

	2015	2014
Cash paid during the year for:		
Interest	$ 33,385	$ -
Property and equipment recorded through recognition of a liability	$ -	$ 468,741

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.

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, 2015 and 2014, 4 Paws’ uninsured cash balance was $1,427,000 and $2,015,403, respectively. The carrying value of cash approximates fair value.

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.

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 statement of financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Donations

Donations are recorded when received. 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 financials statements at their estimated fair values for years ended December 31, 2015 and 2014. 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 financials 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, 2015 and 2014, $25,000 and $133,750, respectively, of 4 Paws' temporarily restricted net assets related to 4 Paws' program to benefit disabled veterans, and $208,776 and $99,618, respectively, 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 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
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 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 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. The accompanying financial statements include certain accounting conventions such as straight-line depreciation and the use of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, including interim periods within that reporting period. The Organization is currently assessing the effect that adoption of the new standard, including possible transition alternatives, will have on its consolidated financial statements.

NOTE 3 – LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment consist of the following at December 31st:

	2015	2014
Land	$ 121,376	$ 68,230
Buildings	3,255,935	423,876
Automobiles	203,058	161,057
Equipment	370,797	103,649
Construction in progress	-	584,504
Total	3,951,165	1,341,316
Accumulated depreciation	(359,556)	(285,490)
Land, building, and equipment, net	$ 3,591,609	$ 1,055,826

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 2015, 4 Paws constructed a new facility on its property located in Xenia, Ohio. Costs incurred and capitalized as construction in progress were $584,504 at December 31, 2014. These costs were transferred to buildings during 2015, as the project was completed.

NOTE 4 – MORTGAGE PAYABLE

On August 27, 2014, in conjunction with the Organization's planned construction project (Note 3), 4 Paws entered into a construction loan agreement with Huntington National Bank (the "2014 Mortgage Note"). The 2014 Mortgage Note allowed the Organization to make regularly scheduled withdrawals which were intended to cover the costs associated with the ongoing construction. No withdrawals were made against the 2014 Mortgage Note during 2014. Throughout 2015, 4 Paws requested withdrawals against the 2014 Mortgage Note and paid interest, calculated at a fixed rate of 3.75% on the balance outstanding. 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 Loan was suspended and the principal balance became fixed at $2,303,500. Beginning in January 2016, 4 Paws is 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, the loan is secured by the Organization's building and land. Future maturities of the 2014 Mortgage Note are as follows:

Year	Amount
2016	$ 74,141
2017	77,573
2018	80,880
2019	84,329
2020	87,691
Thereafter	1,898,886
Total	$ 2,303,500

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 120 days of the fiscal year-end, as defined within the agreement. As of December 31, 2015, the Company was in violation of a non-financial covenant set-forth in the loan agreement. Huntington National Bank subsequently waived the covenant violation existing as of December 31, 2015.

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, 2015 and 2014. 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, 2015 and 2014.

The federal informational returns for 4 Paws for years ending 2012 to the present are subject to examination by taxing authorities.

NOTE 6 – SUBSEQUENT EVENTS

In connection with the audit of 4 Paws' financial statements as of and for the year ended December 31, 2015 events and transactions subsequent to December 31, 2015 and through July 27, 2016, 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. Other than obtaining a waiver of a certain debt covenant violation (see Note 4), no other subsequent events requiring financial statement adjustment and/or disclosure have been identified.