

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2018 and 2017 and for the
Years then Ended with Independent Auditor's Report



STRATEGIC ACCOUNTANTS
& BUSINESS ADVISORS

4 Paws for Ability, Inc.

Financial Statements

*As of December 31, 2018 and 2017 and for the
Years then Ended with Independent Auditor's Report*

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Audited Financial Statements	8



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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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.

A handwritten signature in cursive script that reads "Brixey & Meyer".

Brixey & Meyer, Inc.
Miamisburg, Ohio
June 25, 2019

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,158,332	\$ 3,099,709
Inventory	149,131	98,511
Other current assets	46,944	4,569
Total current assets	3,354,407	3,202,789
Land, building and equipment, net	3,538,104	3,624,759
Total assets	\$ 6,892,511	\$ 6,827,548
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 88,953	\$ 180,460
Mortgage payable, current portion	84,329	80,880
Total current liabilities	173,282	261,340
Mortgage payable, net of current portion	1,886,615	2,070,943
Total liabilities	2,059,897	2,332,283
Net Assets		
Without donor restrictions	4,808,282	4,495,265
With donor restrictions	24,332	-
Total net assets	4,832,614	4,495,265
Total liabilities and net assets	\$ 6,892,511	\$ 6,827,548

4 PAWS FOR ABILITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018 (WITH COMPARITIVE TOTALS FOR 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Revenue:				
Program service fees	\$ 2,042,746	\$ -	\$ 2,042,746	\$ 1,966,215
Donations	2,158,442	24,332	2,182,774	2,653,982
Donations in-kind	66,452	-	66,452	-
Sales and fees	188,890	-	188,890	149,441
Other income	29,747	-	29,747	13,060
Total revenue	4,486,277	24,332	4,510,609	4,782,698
Expenses:				
Dog care	2,270,324	-	2,270,324	2,097,676
Dog training	1,186,845	-	1,186,845	1,133,776
Administrative	367,234	-	367,234	280,527
Fundraising and program development	348,857	-	348,857	275,565
Total expenses	4,173,260	-	4,173,260	3,787,544
Change in net assets	313,017	24,332	337,349	995,154
Net assets, beginning of year	4,495,265	-	4,495,265	3,500,111
Net assets, end of year	\$ 4,808,282	\$ 24,332	\$ 4,832,614	\$ 4,495,265

See accompanying independent auditor's report and notes to audited financial statements.

4 PAWS FOR ABILITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total 2017
Revenue:			
Program service fees	\$ 1,966,215	\$ -	\$ 1,966,215
Donations	2,653,982	-	2,653,982
Sales and fees	149,441	-	149,441
Other income	13,060	-	13,060
Total revenue	<u>4,782,698</u>	<u>-</u>	<u>4,782,698</u>
Expenses:			
Dog care	2,097,676	-	2,097,676
Dog training	1,133,776	-	1,133,776
Administrative	280,527	-	280,527
Fundraising and program development	275,565	-	275,565
Total expenses	<u>3,787,544</u>	<u>-</u>	<u>3,787,544</u>
Change in net assets	995,154	-	995,154
Net assets, beginning of year	<u>3,500,111</u>	<u>-</u>	<u>3,500,111</u>
Net assets, end of year	<u>\$ 4,495,265</u>	<u>\$ -</u>	<u>\$ 4,495,265</u>

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				
	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 1,023,374	\$ 903,784	\$ 272,730	\$ 225,577	\$ 2,425,465
Education and awareness	-	-	-	59,855	59,855
Occupancy	138,732	69,666	11,935	11,725	232,058
Program support	940,567	106,803	32,531	-	1,079,901
Professional services	3,430	1,984	24,533	20,227	50,173
Information technologies	12,065	6,033	1,005	1,005	20,109
Travel	31,198	36,532	5,672	16,679	90,082
Depreciation	119,276	59,638	9,940	9,940	198,793
Other	1,682	2,405	8,888	3,850	16,825
	<u>\$ 2,270,324</u>	<u>\$ 1,186,845</u>	<u>\$ 367,234</u>	<u>\$ 348,857</u>	<u>\$ 4,173,260</u>
	2017				
	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 974,732	\$ 829,174	\$ 201,791	\$ 206,289	\$ 2,211,986
Education and awareness	-	2,870	4,378	15,158	22,407
Occupancy	134,037	67,801	12,258	11,841	225,937
Program support	819,632	128,000	13,245	-	960,877
Professional services	4,009	2,381	20,695	12,638	39,723
Information technologies	12,062	6,031	1,221	1,005	20,319
Travel	25,661	28,584	4,666	12,254	71,165
Depreciation	116,461	58,230	9,705	9,705	194,101
Other	11,081	10,704	12,569	6,673	41,028
	<u>\$ 2,097,676</u>	<u>\$ 1,133,776</u>	<u>\$ 280,527</u>	<u>\$ 275,565</u>	<u>\$ 3,787,544</u>

4 PAWS FOR ABILITY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Changes in net assets	\$ 337,349	\$ 995,154
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	198,793	194,101
Changes in assets and liabilities:		
Inventory	(50,620)	26,793
Other current assets	(42,375)	2,697
Accounts payable and accrued expenses	(91,507)	29,678
Net cash provided by operating activities	<u>351,640</u>	<u>1,248,423</u>
Cash flows from investing activities		
Purchases of land, building and equipment	(112,138)	(46,823)
Net cash used in investing activities	<u>(112,138)</u>	<u>(46,823)</u>
Cash flows from financing activities		
Payments on long-term debt	(180,879)	(77,571)
Net cash used in financing activities	<u>(180,879)</u>	<u>(77,571)</u>
Net increase in cash and cash equivalents	58,623	1,124,029
Cash and cash equivalents, beginning of year	<u>3,099,709</u>	<u>1,975,680</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,158,332</u></u>	<u><u>\$ 3,099,709</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:		
Interest	<u><u>\$ 88,914</u></u>	<u><u>\$ 86,453</u></u>

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 – NATURE OF OPERATIONS

4 Paws for Ability, Inc. (“4 Paws” or the “Organization”) is a nonprofit 501(c)(3) organization, which is governed by an independent, uncompensated Board of Directors. The Organization provides specially trained service dogs for companionship and assistance with independent living to individuals with physical and hidden disabilities. All training is recipient-specific for Autism Assistance, Mobility Assistance, Signal/Hearing Ear, Seizure Assistance and Multi-purpose Service Dogs.

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) which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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, 2018 and 2017, the Organization’s uninsured cash balance was \$2,905,493 and \$2,860,087, respectively. The carrying value of cash approximates fair value.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 over the estimated useful lives of the assets ranging from 3 to 39 years. See Note 3 to the financial statements.

Maintenance and repairs are charged to expense as incurred. Major improvements that substantially extend the useful life of the property are capitalized.

Inventories

Inventories are carried at the lower of cost or net realizable value 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.

Program Service Fees

The Organization provides service dogs to families in exchange for a predetermined, non-refundable fee. The fee charged to families is significantly less than the expenses incurred to identify, shelter, care for, train, and supply the service dog. Due to the non-refundable nature of the transaction, program service fees are recorded when received from recipients on the Organization's statements of activities for the years ended December 31, 2018 and 2017.

Donations

Donations are recorded when received as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donations that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the donation is recognized. All other donor restricted donations are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donations in-kind

The Organization received donated dog care items of \$66,452 for the year ended December 31, 2018. Such amounts, which are based upon information provided by donors, are recorded at their estimated fair value determined on the date of donation and are reported as donations in-kind on the accompanying statements of activities and statements of functional expenses.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 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 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.

Administrative Expenses

Administrative expenses reflect all costs directly related to managing 4 Paws.

Fundraising and Program Development Expenses

Fundraising expenses include all costs expended on fundraising events and initiatives. 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.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among dog care, dog training and supporting services benefited. Such allocations are determined by management on an equitable basis and include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Education and awareness	Time and effort
Occupancy	Square footage
Program support	Time and effort
Professional services	Time and effort
Information technology	Square footage
Travel	Time and effort
Depreciation	Square footage
Other	Time and effort

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The standard describes three levels of inputs that may be used to measure fair value. Level 1 inputs are defined as quoted prices in active markets for identical assets or liabilities; Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Generally, any non-recurring assets and liabilities measured and disclosed at fair value will be Level 3 due to the nature of the unobservable inputs in the calculation of fair value.

New Accounting Pronouncements

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. The standard improves 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 also provides for enhanced disclosures about amounts and purposes for designations, appropriations and other self-imposed restrictions, liquidity and the ability of a not-for-profit entity's financial assets to meet short-term cash needs and underwater endowment funds. During 2018, the Organization adopted this ASU and applied the new guidance retrospectively to all periods presented.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The standard applies 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. ASU 2014-09 replaces most of the existing revenue recognition requirements in U.S. GAAP. This update is effective for annual reporting periods beginning after December 15, 2018. The Organization is currently assessing the effect that adoption of ASU 2014-09, including possible transition alternatives, will have on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e. an exchange transaction) or nonreciprocal (i.e. a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits recipients and resource providers. As the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after June 15, 2018. Where the Organization is the resource provider, the ASU is applicable to contributions made for annual periods beginning after December 15, 2018. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassifications

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

NOTE 3 – LAND, BUILDING AND EQUIPMENT

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

	2018	2017
Land	\$ 121,376	\$ 121,376
Buildings	3,616,368	3,616,368
Automobiles	277,086	219,558
Equipment	463,780	409,170
Total	4,478,610	4,366,472
Accumulated depreciation	(940,506)	(741,713)
Land, building and equipment, net	\$ 3,538,104	\$ 3,624,759

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4 – MORTGAGE PAYABLE

In August 2014, 4 Paws entered into a construction loan agreement with Huntington National Bank (the “2014 Mortgage Note”). 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, and the loan is secured by the Organization’s buildings and land. Interest expense on the mortgage payable was \$93,703 and \$91,574 for the years ended December 31, 2018 and 2017, respectively.

Future maturities of the 2014 Mortgage Note are as follows:

<u>Year</u>		<u>Amount</u>
2019	\$	84,329
2020		87,691
2021		91,662
2022		95,570
2023		99,645
Thereafter		1,512,047
Total	\$	<u>1,970,944</u>

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. The Organization is in compliance with all covenants at December 31, 2018.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – AVAILABILITY AND LIQUIDITY

The following represents 4 Paws financial assets at December 31:

Financial assets at year end:	2018	2017
Cash and cash equivalents	\$ 3,158,332	\$ 3,099,709
Other assets	14,721	2,468
Total financial assets available	<u>3,173,053</u>	<u>3,102,177</u>
Less amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	24,322	-
Board designated	115,000	-
Subtotal	<u>139,322</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,033,731</u>	<u>\$ 3,102,177</u>

The Organization’s goal is generally to maintain financial assets to meet near-term operating expenses. As part of its liquidity plan, excess cash is swept into money market accounts.

NOTE 6 – NET ASSETS

Net assets with donor restrictions are as follows for the years ended December 31:

	2018	2017
Specific purpose		
Capital improvements	\$ 24,332	\$ -
Total	<u>\$ 24,332</u>	<u>\$ -</u>

Net assets without donor restrictions are as follows for the years ended December 31:

	2018	2017
Undesignated	\$ 4,693,282	\$ 4,495,265
Board designated – capital improvements	115,000	-
Total	<u>\$ 4,808,282</u>	<u>\$ 4,495,265</u>

These board designated net assets are included in cash and cash equivalents on the statements of financial position.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – TAX STATUS

The Internal Revenue Service has confirmed that 4 Paws qualifies as a tax-exempt organization 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, 2018 or 2017. 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, 2018 or 2017.

The federal informational returns for 4 Paws for years ended 2015 to the present are subject to examination by taxing authorities.

NOTE 8 – SUBSEQUENT EVENTS

In connection with the audit of 4 Paws' financial statements as of and for the year ended December 31, 2018, events and transactions subsequent to December 31, 2018, and through June 25, 2019, 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.