

# 4 Paws for Ability, Inc.

## Financial Statements

As of December 31, 2020 and 2019 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, 2020 and 2019 and for the  
Years then Ended with Independent Auditor's Report*

TABLE OF CONTENTS

Independent Auditor's Report .....	1
<b>Financial Statements</b>	
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, 2020 and 2019, 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, 2020 and 2019, 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 &amp; Meyer".

Brixey & Meyer, Inc.  
Miamisburg, Ohio  
June 25, 2021

**4 PAWS FOR ABILITY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,125,712	\$ 3,308,860
Inventory	134,168	137,295
Investments	76,503	42,735
Other current assets	30,185	26,380
Total current assets	3,366,568	3,515,270
Land, building and equipment, net	3,981,619	3,371,158
Total assets	\$ 7,348,187	\$ 6,886,428
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 71,978	\$ 46,470
Mortgage payable, current portion	148,579	87,691
Total current liabilities	220,557	134,161
Mortgage payable, net of current portion	1,530,757	1,794,758
Total liabilities	1,751,314	1,928,919
<b>Net Assets</b>		
Without donor restrictions	5,596,873	4,745,418
With donor restrictions	-	212,091
Total net assets	5,596,873	4,957,509
Total liabilities and net assets	\$ 7,348,187	\$ 6,886,428

*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, 2020 (WITH COMPARITIVE TOTALS FOR 2019)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total 2020</b>	<b>Total 2019</b>
<b>Revenue:</b>				
Program service fees	\$ 1,951,572	\$ -	\$ 1,951,572	\$ 1,912,660
Donations	2,134,496	98,645	2,233,141	2,016,581
Donations in-kind	64,649	-	64,649	61,482
Sales and fees	194,633	-	194,633	247,339
Other income	56,585	-	56,585	84,150
Government grant income	452,850	-	452,850	-
Net assets released from restrictions	310,736	(310,736)	-	-
Total revenue	<u>5,165,521</u>	<u>(212,091)</u>	<u>4,953,430</u>	<u>4,322,212</u>
<b>Expenses:</b>				
Dog care	2,355,447	-	2,355,447	2,265,448
Dog training	1,263,101	-	1,263,101	1,228,947
Administrative	372,539	-	372,539	340,949
Fundraising and program development	322,979	-	322,979	361,973
Total expenses	<u>4,314,066</u>	<u>-</u>	<u>4,314,066</u>	<u>4,197,317</u>
<b>Change in net assets</b>	851,455	(212,091)	639,364	124,895
<b>Net assets, beginning of year</b>	<u>4,745,418</u>	<u>212,091</u>	<u>4,957,509</u>	<u>4,832,614</u>
<b>Net assets, end of year</b>	<u><u>\$ 5,596,873</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,596,873</u></u>	<u><u>\$ 4,957,509</u></u>

**4 PAWS FOR ABILITY, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total 2019</b>
Revenue:			
Program service fees	\$ 1,912,660	\$ -	\$ 1,912,660
Donations	1,828,822	187,759	2,016,581
Donations in-kind	61,482	-	61,482
Sales and fees	247,339	-	247,339
Other income	84,150	-	84,150
Total revenue	<u>4,134,453</u>	<u>187,759</u>	<u>4,322,212</u>
Expenses:			
Dog care	2,265,448	-	2,265,448
Dog training	1,228,947	-	1,228,947
Administrative	340,949	-	340,949
Fundraising and program development	361,973	-	361,973
Total expenses	<u>4,197,317</u>	<u>-</u>	<u>4,197,317</u>
<b>Change in net assets</b>	(62,864)	187,759	124,895
<b>Net assets, beginning of year</b>	<u>4,808,282</u>	<u>24,332</u>	<u>4,832,614</u>
<b>Net assets, end of year</b>	<u>\$ 4,745,418</u>	<u>\$ 212,091</u>	<u>\$ 4,957,509</u>

**4 PAWS FOR ABILITY, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2020**

	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 1,080,046	\$ 1,049,304	\$ 283,701	\$ 220,957	\$ 2,634,008
Education and awareness	-	-	-	48,272	48,272
Occupancy	132,050	66,285	11,480	11,480	221,295
Program support	990,372	57,305	18,912	-	1,066,588
Professional services	4,285	2,524	35,136	22,378	64,323
Information technologies	8,267	4,134	689	689	13,779
Travel	30,823	24,933	5,604	5,318	66,678
Depreciation	106,924	53,462	8,910	8,910	178,206
Other	2,681	5,156	8,106	4,974	20,917
	<u>\$ 2,355,447</u>	<u>\$ 1,263,101</u>	<u>\$ 372,539</u>	<u>\$ 322,979</u>	<u>\$ 4,314,066</u>

**For the Year Ended December 31, 2019**

	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 1,021,684	\$ 957,274	\$ 264,115	\$ 222,099	\$ 2,465,172
Education and awareness	-	-	5,960	53,923	59,883
Occupancy	129,975	65,012	10,877	10,877	216,741
Program support	940,324	75,543	13,459	-	1,029,326
Professional services	4,023	2,376	25,331	19,496	51,226
Information technologies	13,667	6,834	1,157	1,139	22,797
Travel	25,810	56,242	4,693	39,818	126,563
Depreciation	127,854	63,927	10,655	10,655	213,090
Other	2,111	1,738	4,703	3,967	12,519
	<u>\$ 2,265,448</u>	<u>\$ 1,228,947</u>	<u>\$ 340,949</u>	<u>\$ 361,973</u>	<u>\$ 4,197,317</u>



**4 PAWS FOR ABILITY, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 639,364	\$ 124,895
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	178,206	213,090
Unrealized gains, net	(28,687)	(7,525)
Contributed investments	(5,081)	(20,489)
Government grant income	(452,850)	-
Changes in assets and liabilities:		
Inventory	3,127	11,836
Other current assets	(3,805)	5,843
Accounts payable and accrued expenses	25,508	(42,483)
Net cash provided by operating activities	355,782	285,167
<b>Cash flows from investing activities</b>		
Purchases of land, building and equipment	(788,667)	(46,144)
Net cash used in investing activities	(788,667)	(46,144)
<b>Cash flows from financing activities</b>		
Payments on long-term debt	(203,113)	(88,495)
Proceeds received under Paycheck Protection Program	452,850	-
Net cash provided by (used in) financing activities	249,737	(88,495)
<b>Net (decrease) increase in cash and cash equivalents</b>	(183,148)	150,528
Cash and cash equivalents, beginning of year	3,308,860	3,158,332
<b>Cash and cash equivalents, end of year</b>	\$ 3,125,712	\$ 3,308,860

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest	\$ 69,467	\$ 75,930
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**SCHEDULE OF NON-CASH INVESTING ACTIVITIES**

Contributed investments	\$ 5,081	\$ 20,489
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*See accompanying independent auditor's report and notes to audited financial statements.*

## 4 PAWS FOR ABILITY, INC.

### NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

#### **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, 2020 and 2019, the Organization's uninsured cash balance was \$2,875,336 and \$3,059,131, respectively. The carrying value of cash approximates fair value.

## 4 PAWS FOR ABILITY, INC.

### NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

#### **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.

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.

##### **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**

Donated materials are recorded as donations at their estimated fair values at the date of donation. Donations of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as donated services. The Organization received donated dog care items of \$64,649 and \$61,482 for the years ended December 31, 2020 and 2019, respectively, which are reported as donations in-kind on the accompanying statements of activities.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

**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 functional expenses. 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:

<u>Expense</u>	<u>Method of Allocation</u>
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 technologies	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, 2020 and 2019

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The pandemic has significantly impacted the economic conditions in the United States, as federal, state and local governments reacted to the public health crisis, creating significant uncertainties in the economy. As of the date of this report, the full impact of COVID-19 remains unknown. Management is actively monitoring the long-term impact on the Organization's financial condition, liquidity, operations, industry and workforce.

##### 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.

#### NOTE 3 – INVESTMENTS

Investments are comprised of the following as of December 31:

	2020	2019
Cash and cash equivalents	\$ 24,601	\$ 10,389
Common stocks	30,881	14,675
Exchange traded mutual funds	21,021	17,671
Total	<u>\$ 76,503</u>	<u>\$ 42,735</u>

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

**NOTE 3 – INVESTMENTS (CONTINUED)**

The Organization 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.

Investment income, which is primarily unrealized gains on investments held, was \$28,687 and \$7,525 for the years ended December 31, 2020 and 2019 and is recorded in other income in the statements of activities.

**NOTE 4 – LAND, BUILDING AND EQUIPMENT**

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

	2020	2019
Land	\$ 461,263	\$ 121,376
Buildings	3,622,118	3,616,368
Automobiles	289,315	271,685
Equipment	513,722	509,924
Construction in process	421,602	-
Total	5,308,020	4,519,353
Accumulated depreciation	(1,326,401)	(1,148,195)
Land, building and equipment, net	<u>\$ 3,981,619</u>	<u>\$ 3,371,158</u>

**NOTE 5 – MORTGAGE PAYABLE**

In August 2014, 4 Paws entered into a construction loan agreement with Huntington National Bank (the 2014 Mortgage Note). In October 2020, 4 Paws entered into an amended agreement (the 2020 Refinanced Mortgage Note). Under the 2020 Refinanced Mortgage Note, 4 Paws is required to make monthly principal and interest payments in the amount of \$16,444, with interest fixed at a rate of 2.99% per annum through maturity. The 2020 Refinanced Mortgage Note matures on October 10, 2030, and the loan is secured by the Organization's buildings and land. Interest expense on the mortgage payable was \$69,285 and \$80,383 for the years ended December 31, 2020 and 2019, respectively, and is allocated among program service expenses as an occupancy expense on the statements of activities.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

**NOTE 5 – MORTGAGE PAYABLE (CONTINUED)**

Future maturities of the 2020 Refinanced Mortgage Note are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 148,579
2022	153,146
2023	157,854
2024	162,605
2025 and Thereafter	1,057,152
Total	<u>\$ 1,679,336</u>

The 2020 Refinanced 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, 2020.

**NOTE 6 – AVAILABILITY AND LIQUIDITY**

The following represents 4 Paws financial assets at December 31:

Financial assets at year-end:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,125,712	\$ 3,308,860
Investments	76,503	42,735
Total financial assets	<u>3,202,215</u>	<u>3,351,595</u>
Less amounts not available to be used for general expenditures within one year:		
Net assets with donor restrictions	-	212,091
Board designated net assets	-	115,000
Subtotal	<u>-</u>	<u>327,091</u>
Financial assets available to meet cash needs within one year	<u>\$ 3,202,215</u>	<u>\$ 3,024,504</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.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

**NOTE 7 – NET ASSETS**

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

	2020	2019
Specific purpose capital improvements	\$ -	\$ 212,091
Total	<u>\$ -</u>	<u>\$ 212,091</u>

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

	2020	2019
Undesignated	\$ 5,596,873	\$ 4,630,418
Board designated – future capital improvements	-	115,000
Total	<u>\$ 5,596,873</u>	<u>\$ 4,745,418</u>

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

**NOTE 8 – 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, 2020 or 2019. 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, 2020 or 2019.

The federal informational returns for 4 Paws for years ended 2017 to the present are subject to examination by taxing authorities.

**NOTE 9 – PAYCHECK PROTECTION PROGRAM**

In May 2020, 4 Paws entered into a loan with its commercial bank as the lender in an aggregate principal amount of \$452,850 (the PPP Loan) pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The PPP Loan was evidenced by a promissory note (the Note). Subject to the terms of the Note, the PPP Loan bears interest at a fixed rate of one percent (1%) per annum, with the first twelve months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (the SBA). After the initial twelve-month deferral period, the PPP Loan requires monthly payments of principal and interest until maturity with respect to any portion of the PPP Loan which is not forgiven.



## 4 PAWS FOR ABILITY, INC.

### NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

#### **NOTE 9 – PAYCHECK PROTECTION PROGRAM (CONTINUED)**

Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted, forgiveness for all or a portion of loans granted under the PPP. Such forgiveness is determined, subject to limitations and ongoing rulemaking by the SBA, based on the use of loan proceeds for payroll costs and mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. 4 Paws used the entire loan amount for qualifying expenses and during December 2020, applied to the SBA for full forgiveness.

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities to a for-profit entity. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on facts and circumstances outlined above, the Company determined it most appropriate to account for the PPP Loan proceeds as an in-substance government grant by analogy to International Accounting Standards 20 (“IAS 20”), Accounting for Government Grants and Disclosure of Government Assistance. Under the provisions of IAS 20, “a forgivable loan from a government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.” Under IAS 20, government grants are recognized in earnings on a systematic basis over the periods in which the Company recognizes costs for which the grant is intended to compensate (i.e. qualified expenses). Further, IAS 20 permits for the recognition in earnings either separately under a general heading such as other income, or as a reduction of the related expenses.

At December 31, 2020, management’s best estimate was that the PPP Loan would be forgiven in its entirety. Consequently, the Company removed the balance of the PPP Loan from the statements of financial position as of December 31, 2020, and recognized loan forgiveness of \$452,850 as government grant income in the statement of activities for the year ended December 31, 2020. On March 17, 2021, the Organization received notice from the SBA that the PPP Loan was fully forgiven.

#### **NOTE 10 – SUBSEQUENT EVENTS**

In connection with the audit of 4 Paws’ financial statements as of and for the year ended December 31, 2020, events and transactions subsequent to December 31, 2020, and through June 25, 2021, 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.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

**NOTE 10 – SUBSEQUENT EVENTS (CONTINUED)**

On January 11, 2021, the SBA reopened the PPP, allowing companies to apply for a second PPP loan (Second Draw PPP Loan). Second Draw PPP Loans can be used to help fund payroll costs, including benefits. Funds can also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. Any unforgiven amount of the Second Draw PPP loan will be required to be repaid over a two-year term. The interest rate on the Second Draw PPP Loan is 1.0% per annum, which shall be deferred for the first twelve months of the term of the loan. After the initial twelve-month deferral period, the loan requires monthly payments of principal and interest until maturity with respect to any portion of the Second Draw PPP loan which is not forgiven. In March 2021, the Organization applied for and received from its commercial lender a \$452,850 loan under the SBA's Second Draw PPP Loan. The Second Draw PPP Loan accrues interest at a rate of 1.0% per annum, with monthly principal and interest payments initially deferred for twelve months. All, or a portion, of this note may be forgiven in 2021 if the Organization meets certain terms and conditions as established by the Second Draw PPP Loan guidelines.

Except as noted above and in Note 10, no other subsequent events requiring financial statement adjustment and/or disclosure have been identified.



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