

4 Paws for Ability, Inc.

Financial Report
December 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of 4 Paws for Ability, Inc. which comprise the statement of financial position as of December 31, 2014, 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 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 these 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.

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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

Other Matter

The financial statements of 4 Paws for Ability, Inc., as of and for the year ended December 31, 2013, were audited by other auditors whose report dated August 15, 2014 expressed an unmodified opinion on those statements.

McGladrey LLP

Dayton, Ohio
July 9, 2015

4 Paws for Ability, Inc.

**Statements of Financial Position
December 31, 2014 and 2013**

	2014	2013
Assets		
Cash and cash equivalents	\$ 2,265,403	\$ 1,752,913
Pledge receivable	-	18,148
Other assets	80,835	40,846
Land, building and equipment, net	1,055,826	469,127
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Total assets	\$ 3,402,064	\$ 2,281,034
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Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 563,165	\$ 47,314
Total liabilities	563,165	47,314
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Net Assets		
Unrestricted	2,605,531	1,947,107
Temporarily restricted	233,368	286,613
Total net assets	2,838,899	2,233,720
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Total liabilities and net assets	\$ 3,402,064	\$ 2,281,034
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See Notes to Financial Statements.

4 Paws for Ability, Inc.

**Statement of Activities
Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	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 training expenses	650,830	-	650,830
Dog care expenses	1,164,912	-	1,164,912
Administrative expenses	137,751	-	137,751
Fundraising and program development expenses	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

See Notes to Financial Statements.

4 Paws for Ability, Inc.

**Statement of Activities
Year Ended December 31, 2013**

	Unrestricted	Temporarily Restricted	Total
Revenue			
Donations	\$ 2,270,982	\$ 183,206	\$ 2,454,188
Sales and fees	22,286	-	22,286
Other income	5,739	-	5,739
Net assets released from restrictions	136,333	(136,333)	-
Total revenue	2,435,340	46,873	2,482,213
Expenses			
Dog training expenses	574,720	-	574,720
Dog care expenses	906,481	-	906,481
Administrative expenses	139,468	-	139,468
Fundraising and program development expenses	169,420	-	169,420
Total expenses	1,790,088	-	1,790,088
Change in net assets	645,252	46,873	692,125
Net assets, beginning of year	1,301,855	239,740	1,541,595
Net assets, end of year	\$ 1,947,107	\$ 286,613	\$ 2,233,720

See Notes to Financial Statements.

4 Paws for Ability, Inc.

Statements of Cash Flows Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Changes in net assets	\$ 605,179	\$ 692,125
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	34,220	34,912
Changes in assets and liabilities:		
Pledge receivable	18,148	2,892
Other assets	(39,989)	(222)
Accounts payable and accrued expenses	47,110	(27,221)
Net cash provided by operating activities	664,668	702,486
Cash Flows From Investing Activities		
Purchase of property and equipment	(152,178)	(16,155)
Net cash used in investing activities	(152,178)	(16,155)
Cash Flows From Financing Activities		
Payments on long-term debt	-	(204,751)
Net increase cash and cash equivalents	512,490	481,580
Cash and cash equivalents		
Beginning	1,752,913	1,271,333
Ending	\$ 2,265,403	\$ 1,752,913
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ -	\$ 12,791
Property and equipment recorded through recognition of a liability	\$ 468,741	\$ -

See Notes to Financial Statements.

4 Paws for Ability, Inc.

Notes to Financial Statements

Note 1. Nature of Operations

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

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

4 Paws is unlike other service dog organizations in that it does not discriminate or limit placements on applicant acceptance based upon age or disability, having approximately 90% of placements for children under the age of ten years. Based in Xenia, Ohio, 4 Paws has grown from a regional provider to an international organization placing service dogs in almost all 50 states and Canada, Australia, New Zealand, and Germany.

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

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

Note 2. Summary of Significant Accounting Policies

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

Cash and cash equivalents: Cash and cash equivalents include deposits on demand with financial institutions and money market funds.

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 30 years. See also Note 3 to the financial statements.

Federal income taxes: The Organization is exempt from federal income tax under section 501 (c)(3) of the Internal Revenue Code. With few exceptions, the Organization's federal information returns are no longer subject to examination by the Internal Revenue Service for years before 2011.

4 Paws for Ability, Inc.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

Unrestricted donations: Donations are recorded when received. All donations made to 4 Paws by or on behalf of applicants are unrestricted, as governed by the contract between 4 Paws and the applicant. 4 Paws has no obligation to provide dogs to applicants, and applicants have no obligation to donate to 4 Paws. Accordingly, no contributions receivable or unearned revenue has been recorded in the accompanying financial statements.

Donations of dogs, dog food, dog supplies and other goods are recorded as unrestricted donations at the estimated fair value of the items donated. Donations of volunteer time and professional services typically include technology implementation, accounting services, and legal advice. In accordance with accounting guidance, such donations of professional services have been recorded as unrestricted donations in the accompanying financial statements at their estimated fair values for years ended December 31, 2014 and 2013. The value of certain donated volunteer services does not meet the criteria for recognition under existing accounting standards and, accordingly, are not reflected in the accompanying financial statements.

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

At December 30, 2014 and 2013 \$133,750 and \$153,750, respectively, of 4 Paws' temporarily restricted net assets related to 4 Paws' program to benefit disabled veterans, and \$99,618 and \$132,863 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 a 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.

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.

4 Paws for Ability, Inc.

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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

Concentrations: 4 Paws had no significant concentrations of contributions or asset custodians at or for the years ended December 31, 2014 and 2013. 4 Paws' cash management policy is to maintain balances below FDIC insurance limits in each deposit account in order to minimize custodial credit risk.

Note 3. Land, Building, and Equipment

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

	2014	2013
Land	\$ 68,230	\$ 68,230
Buildings	423,876	423,876
Automobiles	161,057	124,642
Equipment	103,649	103,649
Construction in Progress	584,504	-
	1,341,316	720,397
Accumulated depreciation	(285,490)	(251,271)
Net	\$ 1,055,826	\$ 469,126

4 Paws for Ability, Inc.

Notes to Financial Statements

Note 3. Land, Building, and Equipment (Continued)

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.

4 Paws has begun construction of 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.

Note 4. Mortgage Obligation Payable

In 2009, 4 Paws entered into a refinanced mortgage of its primary training facility. The mortgage had a fixed annual rate of 6.5% for the first five years, an original principal of \$229,133 and a balloon payment due February 14, 2014. The mortgage was collateralized by 4 Paws' property in Xenia, Ohio. The mortgage was paid off in 2013.

Note 5. Subsequent Events

Subsequent events have been evaluated through July 9, 2015, the date the financial statements were available to be issued.