

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2017 and 2016 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, 2017 and 2016 and for the
Years then Ended with Independent Auditor's Report*

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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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 4 Paws for Ability, Inc. as of December 31, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Brixey & Meyer

Brixey & Meyer, Inc.
Miamisburg, Ohio
June 27, 2018

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 3,099,709	\$ 1,975,680
Inventory	98,511	125,304
Other current assets	4,569	7,266
Total current assets	3,202,789	2,108,250
Land, building and equipment, net	3,624,759	3,772,037
Total assets	\$ 6,827,548	\$ 5,880,287
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 180,460	\$ 150,782
Mortgage payable, current portion	80,880	77,573
Total current liabilities	261,340	228,355
Mortgage payable, net of current portion	2,070,943	2,151,821
Total liabilities	2,332,283	2,380,176
Net Assets		
Unrestricted	4,495,265	3,500,111
Total net assets	4,495,265	3,500,111
Total liabilities and net assets	\$ 6,827,548	\$ 5,880,287

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 (WITH COMPARITIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Revenue:				
Program service fees	\$ 1,903,030	\$ -	\$ 1,903,030	\$ 2,570,386
Donations	2,717,165	-	2,717,165	1,197,064
Sales and fees	141,626	-	141,626	138,058
Other income	20,877	-	20,877	16,251
Total revenue	4,782,698	-	4,782,698	3,921,759
Expenses:				
Dog care	2,122,770	-	2,122,770	1,813,383
Dog training	1,038,280	-	1,038,280	878,401
Administrative	290,284	-	290,284	263,393
Fundraising and program development	142,109	-	142,109	156,813
Depreciation	194,101	-	194,101	188,056
Total expenses	3,787,544	-	3,787,544	3,300,046
Change in net assets	995,154	-	995,154	621,713
Net assets, beginning of year	3,500,111	-	3,500,111	2,878,398
Net assets, end of year	\$ 4,495,265	\$ -	\$ 4,495,265	\$ 3,500,111

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, 2016

	Unrestricted	Temporarily Restricted	Total 2016
Revenue:			
Program service fees	\$ 2,570,386	\$ -	\$ 2,570,386
Donations	1,197,064	-	1,197,064
Sales and fees	138,058	-	138,058
Other income	16,251	-	16,251
Total revenue	3,921,759	-	3,921,759
Expenses:			
Dog care	1,813,383	-	1,813,383
Dog training	878,401	-	878,401
Administrative	263,393	-	263,393
Fundraising and program development	156,813	-	156,813
Depreciation	188,056	-	188,056
Total expenses	3,300,046	-	3,300,046
Change in net assets	621,713	-	621,713
Net Asset Transfer	233,776	(233,776)	-
Net assets, beginning of year	2,644,622	233,776	2,878,398
Net assets, end of year	\$ 3,500,111	\$ -	\$ 3,500,111

4 PAWS FOR ABILITY, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2017	2016
Cash flows from operating activities		
Changes in net assets	\$ 995,154	\$ 621,713
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	194,101	188,056
Changes in assets and liabilities:		
Inventory	26,793	(6,003)
Other current assets	2,697	(38,396)
Accounts payable and accrued expenses	29,678	(16,861)
Net cash provided by operating activities	1,248,423	748,509
Cash flows from investing activities		
Purchases of land, building and equipment	(46,823)	(368,484)
Net cash used in investing activities	(46,823)	(368,484)
Cash flows from financing activities		
Payments on long-term debt	(77,571)	(74,106)
Net cash used in financing activities	(77,571)	(74,106)
Net increase in cash and cash equivalents	1,124,029	305,919
Cash and cash equivalents, beginning of year	1,975,680	1,669,761
Cash and cash equivalents, end of year	\$ 3,099,709	\$ 1,975,680

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:		
Interest	\$ 86,453	\$ 95,053

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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).

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, 2017 and 2016, the Organization’s uninsured cash balance was \$2,860,087 and \$1,748,657, 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 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.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Unrestricted net assets are not subject to any donor stipulations. Temporarily restricted net assets are those whose use by 4 Paws has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those whose donor-imposed restrictions do not expire. At December 31, 2017 and 2016, there were no temporarily or permanently restricted net assets.

Temporarily restricted contributions whose restricted purpose is satisfied in the same fiscal period that the contribution is received are classified as unrestricted in the statements of activities.

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, 2017 and 2016.

Donations

Donations are recorded when received as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions.

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, as well as interest expense on the mortgage payable in the amounts of \$91,574 and \$95,045 for the years ended December 31, 2017 and 2016, respectively.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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 this new standard, including possible transition alternatives, will have on its financial statements.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (continued)

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. The standard will improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The core principal of the new standard is to require that not-for-profit entities present on the face of the statement of financial position amounts for two classes of net assets rather than the currently required three classes. The new standard will also provide for enhanced disclosures about amounts and purposes for designations, appropriations and other self-imposed restrictions, liquidity, the ability of a not-for-profit entity's financial assets to meet short term cash needs and underwater endowment funds. This update is effective for annual reporting periods beginning after December 15, 2017, including interim period with annual reporting periods after December 15, 2018. The Organization is currently assessing the effect that adoption of this new standard will have 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 31st:

	2017	2016
Land	\$ 121,376	\$ 121,376
Buildings	3,616,368	3,604,373
Automobiles	219,558	203,057
Equipment	409,170	390,843
Total	4,366,472	4,319,649
Accumulated depreciation	(741,713)	(547,612)
Land, building and equipment, net	\$ 3,624,759	\$ 3,772,037

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 – MORTGAGE PAYABLE

In August 2014, 4 Paws entered into a construction loan agreement with Huntington National Bank (the “2014 Mortgage Note”). In accordance with the loan agreement, on December 10, 2015, the Conversion Date, as defined by the 2014 Mortgage Note, the Organization’s ability to withdrawal against the 2014 Mortgage Note was suspended and the principal balance became fixed at \$2,303,500. 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.

Future maturities of the 2014 Mortgage Note are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 80,880
2019	84,329
2020	87,691
2021	91,662
2022	95,570
Thereafter	1,711,691
Total	<u>\$ 2,151,823</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, 2017.

NOTE 5 – 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, 2017 or 2016. 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, 2017 or 2016.

The federal informational returns for 4 Paws for years ended 2014 to the present are subject to examination by taxing authorities.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 6 – SUBSEQUENT EVENTS

In connection with the audit of 4 Paws' financial statements as of and for the year ended December 31, 2017 events and transactions subsequent to December 31, 2017, and through June 27, 2018, 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.