

4 Paws for Ability, Inc.

Financial Statements

As of December 31, 2022 and 2021 and for the
Years then Ended with Independent Auditor's Report



YOUR SUCCESS IS OUR PASSION

4 Paws for Ability, Inc.

Financial Statements

*As of December 31, 2022 and 2021 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 Audit of the Financial Statements

Opinion

We have audited the financial statements of 4 Paws for Ability, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 4 Paws for Ability, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 4 Paws for Ability, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 4 Paws for Ability, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 4 Paws for Ability, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 4 Paws for Ability, Inc.'s ability to continue as a going concern for a reasonable period of time.



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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Brixey & Meyer

Brixey & Meyer, Inc.
Miamisburg, Ohio
June 30, 2023

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,556,471	\$ 1,852,499
Inventory	71,431	123,355
Investments	1,135,259	1,190,331
Other current assets	12,667	25,771
Total current assets	3,775,828	3,191,956
Land, building and equipment, net	4,881,143	5,023,516
Total assets	\$ 8,656,971	\$ 8,215,472
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 144,890	\$ 277,340
Mortgage payable, current portion	157,854	153,146
Total current liabilities	302,744	430,486
Long-term liabilities:		
Other accrued expenses, net of current portion	58,131	58,131
Mortgage payable, net of current portion	1,219,894	1,377,678
Total long-term liabilities	1,278,025	1,435,809
Total liabilities	1,580,769	1,866,295
Net Assets		
Without donor restrictions	7,076,202	6,349,177
Total net assets	7,076,202	6,349,177
Total liabilities and net assets	\$ 8,656,971	\$ 8,215,472

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

4 PAWS FOR ABILITY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Revenue:		
Program service fees	\$ 1,890,413	\$ 2,228,789
Donations	3,155,086	2,895,973
Donations in-kind	68,058	75,175
Sales and fees	246,520	125,640
Other income, net	9,544	152,483
Government grant income	-	452,850
Total revenue	5,369,621	5,930,910
Expenses:		
Dog care	2,809,930	2,688,763
Dog training	1,218,417	1,481,762
Administrative	301,553	545,215
Fundraising and program development	312,695	462,866
Total expenses	4,642,596	5,178,606
Change in net assets	727,025	752,304
Net assets, beginning of year	6,349,177	5,596,873
Net assets, end of year	\$ 7,076,202	\$ 6,349,177

4 PAWS FOR ABILITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 1,587,076	\$ 936,419	\$ 168,827	\$ 201,991	\$ 2,894,313
Education and awareness	-	-	-	58,105	58,105
Occupancy	151,660	75,831	12,641	12,641	252,773
Program support	939,143	123,450	36,125	13	1,098,731
Professional services	4,991	2,818	25,892	20,652	54,353
Information technologies	13,465	6,758	21,623	1,203	43,050
Travel	-	4,539	-	4,539	9,079
Depreciation	106,154	53,077	8,846	8,846	176,923
Other	7,441	15,523	27,598	4,704	55,268
	<u><u>\$ 2,809,930</u></u>	<u><u>\$ 1,218,417</u></u>	<u><u>\$ 301,553</u></u>	<u><u>\$ 312,695</u></u>	<u><u>\$ 4,642,596</u></u>

For the Year Ended December 31, 2021

	<u>Dog Care</u>	<u>Dog Training</u>	<u>Administrative</u>	<u>Fundraising and Program Development</u>	<u>Total</u>
Salaries and benefits	\$ 1,230,011	\$ 1,207,258	\$ 403,031	\$ 332,276	\$ 3,172,575
Education and awareness	968	-	-	43,443	44,412
Occupancy	182,427	91,356	15,729	15,464	304,976
Program support	1,120,222	84,216	27,493	-	1,231,931
Professional services	7,296	4,291	52,722	38,172	102,481
Information technologies	6,756	3,378	10,538	563	21,235
Travel	29,992	31,406	5,749	12,321	79,467
Depreciation	96,995	48,497	8,083	8,083	161,658
Other	14,097	11,359	21,870	12,545	59,871
	<u><u>\$ 2,688,763</u></u>	<u><u>\$ 1,481,762</u></u>	<u><u>\$ 545,215</u></u>	<u><u>\$ 462,866</u></u>	<u><u>\$ 5,178,606</u></u>

4 PAWS FOR ABILITY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Changes in net assets	\$ 727,025	\$ 752,304
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	176,923	161,658
Unrealized losses, net	75,071	4,111
Contributed investments	(13,638)	(117,939)
Government grant income	-	(452,850)
Changes in assets and liabilities:		
Inventory	51,924	10,813
Other current assets	13,104	4,414
Accounts payable and accrued expenses	(132,450)	263,493
Net cash provided by operating activities	897,960	626,004
Cash flows from investing activities		
Purchases of land, building and equipment	(34,550)	(1,203,555)
Sale / (Purchases) of investments, net	(6,362)	(1,000,000)
Net cash used in investing activities	(40,912)	(2,203,555)
Cash flows from financing activities		
Payments on long-term debt	(153,076)	(148,512)
Proceeds received under Paycheck Protection Program	-	452,850
Net cash (used in) provided by financing activities	(153,076)	304,338
Net increase (decrease) in cash and cash equivalents	703,972	(1,273,213)
Cash and cash equivalents, beginning of year	1,852,499	3,125,712
Cash and cash equivalents, end of year	\$ 2,556,470	\$ 1,852,499

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$ 44,289	\$ 46,619
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SCHEDULE OF NON-CASH INVESTING ACTIVITIES

Contributed investments	\$ 13,638	\$ 117,939
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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, 2022 and 2021

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, 2022 and 2021, the Organization's uninsured cash balance was \$2,306,371 and \$1,602,399, respectively. The carrying value of cash approximates fair value.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 40 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 \$68,058 and \$75,175 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021

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.

NOTE 3 – INVESTMENTS

Investments are comprised of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 30,661	\$ 9,851
Common stocks	94,722	110,737
Exchange traded mutual funds	<u>1,009,876</u>	<u>1,069,743</u>
Total	<u>\$ 1,135,259</u>	<u>\$ 1,190,331</u>

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 loss was \$75,071 for the year ended December 31, 2022. Investment income was \$22,593 for the year ended December 31, 2021 and is recorded in other income in the statements of activities.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 4 – LAND, BUILDING AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land	\$ 545,385	\$ 545,385
Buildings	5,144,261	5,101,794
Automobiles	194,858	289,315
Equipment	563,831	563,831
Construction in process	-	11,250
Total	<u>6,448,335</u>	<u>6,511,575</u>
Accumulated depreciation	<u>(1,567,192)</u>	<u>(1,488,059)</u>
Land, building and equipment, net	<u>\$ 4,881,143</u>	<u>\$ 5,023,516</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 \$44,255 and \$45,890 for the years ended December 31, 2022 and 2021, respectively, and is allocated among program service expenses as an occupancy expense on the statements of activities.

Future maturities of the 2022 Refinanced Mortgage Note are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 157,854
2024	162,605
2025	167,705
2026	172,860
2027 and Thereafter	716,724
Total	<u>\$ 1,377,748</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 120 days of the fiscal year-end, as defined within the agreement. The Organization failed to meet the submission requirements set-forth in the 2020 Refinanced Mortgage Note, however, subsequent to year-end, the Bank waived the violation of the non-financial covenant.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 6 – AVAILABILITY AND LIQUIDITY

The following represents 4 Paws financial assets at December 31:

Financial assets at year-end:	2022	2021
Cash and cash equivalents	\$ 2,556,471	\$ 1,852,499
Investments	1,135,259	1,190,331
Total financial assets	<u>3,691,730</u>	<u>3,042,830</u>
Financial assets available to meet cash needs within one year	<u>\$ 3,691,730</u>	<u>\$ 3,042,830</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 7 – NET ASSETS

As of December 31, 2022 and 2021, respectively, the Organization did not have any net assets with donor restrictions. Additionally, none of the Organization’s undesignated net assets were designed for specific use by the board of directors.

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, 2022 or 2021. 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, 2022 or 2021.

The federal informational returns for 4 Paws for years ended 2019 to the present are subject to examination by taxing authorities.

4 PAWS FOR ABILITY, INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 9 – PAYCHECK PROTECTION PROGRAM

On January 11, 2021, the Small Business Administration (SBA) reopened the Paycheck Protection Program (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 a PPP loan will be required to be repaid over a two-year term. The interest rate on the Second Draw PPP Loan is 1.00% 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 PPP loan which is not forgiven. In January 2021, the Company applied for and received from their commercial lender a \$452,850 term note under the SBA's Second Draw PPP Loan.

In March 2021, the Company received notice from the SBA that the PPP loan would be forgiven in its entirety, consequently the Company removed the balance of the PPP loan from the balance sheet and recognized the loan forgiveness of \$452,850 as gain on Paycheck Protection Program loan forgiveness in the statement of activities for the year ended December 31, 2021.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

During July 2021, the Organization entered into a severance agreement with a former employee. The severance agreement requires the Organization to pay the employee their regular salary for a period of two years following termination. For the year ended December 31, 2021, the Organization recorded \$251,899 of severance expense included in administrative expense on the statement of activities. As of December 31, 2022 and 2021, the balance due on the severance agreement of \$58,130 and \$184,080, respectively, is included in accounts payable and accrued expenses and other accrued expenses, net of current portion on the Organization's statements of financial position.

NOTE 11 – SUBSEQUENT EVENTS

In connection with the audit of 4 Paws' financial statements as of and for the year ended December 31, 2022, events and transactions subsequent to December 31, 2022, and through June 30, 2023, 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, other than those noted above and in Note 5.