

EDUCATED CANINES ASSISTING WITH DISABILITIES
Audited Financial Statements
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December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Educated Canines Assisting with Disabilities

We have audited the accompanying financial statements of Educated Canines Assisting with Disabilities (ECAD) (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, 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 Educated Canines Assisting with Disabilities as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

King, King & Associates

King, King & Associates, CPAs
Winsted, CT
June 25, 2014

EDUCATED CANINES ASSISTING WITH DISABILITIES

Statement of Financial Position

December 31, 2013

ASSETS

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 461,052	\$ -	\$ 461,052
Accounts Receivable	222,049	-	222,049
Prepaid Expenses	21,848	-	21,848
Inventory	5,835	-	5,835
Total Current Assets	<u>710,784</u>	<u>-</u>	<u>710,784</u>
Other Assets:			
Investments	-	172,836	172,836
Property, Plant and Equipment:			
Buildings	464,313	-	464,313
Equipment	80,758	-	80,758
Improvements	18,305	-	18,305
Land	31,511	-	31,511
Vehicles	204,501	-	204,501
Less: Accumulated Depreciation	<u>(342,764)</u>	<u>-</u>	<u>(342,764)</u>
Total Other Assets	<u>456,624</u>	<u>172,836</u>	<u>629,460</u>
TOTAL ASSETS	<u>\$ 1,167,408</u>	<u>\$ 172,836</u>	<u>\$ 1,340,244</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Accounts Payable	16,178	-	16,178
Accrued Payroll	19,160	-	19,160
Deferred Revenue	301,830	-	301,830
Loan Payable - Current Portion	5,407	-	5,407
Total Current Liabilities	<u>342,575</u>	<u>-</u>	<u>342,575</u>
Other Liabilities:			
Loan Payable	19,525	-	19,525
TOTAL LIABILITIES	<u>362,100</u>	<u>-</u>	<u>362,100</u>
Net Assets:			
Unrestricted:			
Undesignated	648,808	-	648,808
Board Designated	156,500	-	156,500
Temporarily Restricted	-	172,836	172,836
TOTAL NET ASSETS	<u>805,308</u>	<u>172,836</u>	<u>978,144</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,167,408</u>	<u>\$ 172,836</u>	<u>\$ 1,340,244</u>

See accompanying notes to financial statements.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Statement of Activities

For the Year Ended December 31, 2013

SUPPORT AND REVENUES	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donations/Contributions	\$ 818,088	\$ -	\$ 818,088
Merchandise Sales	\$ 6,988		
Less: Cost of Goods Sold	<u>(14,650)</u>	-	(7,662)
Special Events	\$ 177,101		
Less: Direct Donor Benefits	<u>(74,903)</u>	-	102,198
ECADemy/High School Program	163,525	-	163,525
Team Training Program	160,887	-	160,887
Train the Trainer Program	22,600	-	22,600
Day Camp Income	9,980	-	9,980
Open Door Program	4,372	-	4,372
Donated Dog Food/Vet Services	17,013	-	17,013
Donated Legal Services	48,236	-	48,236
Investment Income	724	4,541	5,265
Other Income	21,704	-	21,704
Net Assets Released from Restriction	<u>50,000</u>	<u>(50,000)</u>	-
TOTAL SUPPORT AND REVENUES	1,411,665	(45,459)	1,366,206
EXPENSES			
Program	1,284,274	-	1,284,274
Management & General	116,496	-	116,496
Fundraising	62,217	-	62,217
TOTAL EXPENSES	1,462,987	-	1,462,987
CHANGE IN NET ASSETS	(51,322)	(45,459)	(96,781)
NET ASSETS AT BEGINNING OF YEAR	<u>856,630</u>	<u>218,295</u>	<u>1,074,925</u>
NET ASSETS AT END OF YEAR	<u>\$ 805,308</u>	<u>\$ 172,836</u>	<u>\$ 978,144</u>

See accompanying notes to financial statements.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Statement of Cash Flows

December 31, 2013

Cash Flow Provided (Used) by Operating Activities	
Change in Net Assets	\$ (96,781)
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	44,338
Unrealized (Gain)/Loss	3,000
(Increase)/Decrease in:	
Accounts Receivable	(13,708)
Prepaid Expenses	4,857
Inventory	7,215
Increase/(Decrease) in:	
Accounts Payable	(18,495)
Accrued Payroll	5,429
Deferred Revenue	88,830
Loan Payable	<u>24,932</u>
Net Cash Provided (Used) by Operating Activities	49,617
Cash Flow Used by Investing Activities	
Purchase of Fixed Assets	(53,450)
Purchase of Investments	(7,541)
Proceeds from Investments	<u>50,000</u>
Net Cash Provided (Used) by Investing Activities	(10,991)
Net Cash Provided (Used) by Financing Activities	-
Net Increase In Cash and Cash Equivalents	38,626
Beginning Cash and Cash Equivalents	<u>422,426</u>
Ending Cash and Cash Equivalents	<u>\$ 461,052</u>
Supplemental Information	
Interest Paid	\$ 1,056
Income Taxes Paid	\$ -

See accompanying notes for financial statements.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

East Coast Assistance Dogs, Inc. DBA as Educated Canines Assisting with Disabilities (“ECAD”), is a not-for-profit organization established in 1995 whose principal purpose is to train dogs to be guides for the disabled. ECAD is unique because it custom trains each dog to suit the individual’s specific disability, and it is the only training organization of its kind to use at-risk teens to train service dogs. Programs of ECAD include the disabled service dog recipient, who is enabled to enter mainstream life, and the at-risk teen trainer, who gains discipline, maturity, and love by raising a service dog. ECAD is supported by private donations, foundation grants, and revenue related to therapy and training programs.

Basis of Accounting

The financial statements of ECAD have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenue is recognized when earned and expenditures when incurred.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Tax Status

ECAD is organized as a Connecticut non-stock corporation and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, ECAD qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). With few exceptions, ECAD is no longer subject to U.S. income tax examinations by authorities for years before 2010.

Cash and Cash Equivalents

ECAD considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude cash held for long term investment.

Investments

Interest and dividends earned on savings accounts, as well as any other form of investment income is included. Restricted gains and investment income whose restrictions are met in the same reporting period are reported as unrestricted support.

Fair Value of Financial Instruments

In accordance with FASB ASC 820-10-50, ECAD is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Valued at quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

Level 2: Valued based on significant observable market inputs, such as quoted priced for similar securities and quoted prices in inactive markets. Certain securities trading outside the U.S. may transfer between level 1 and level 2 due to valuation adjustments resulting from significant market movements following the close of local trading.

Level 3: Valued based on significant unobservable inputs that reflect the investment advisor's determination of assumptions that market participant might reasonable use in valuing the securities.

ECAD's carrying amount of cash and cash equivalents approximate fair value under Level 1. Investments are carried at fair value based on Level 1 and Level 2 observable inputs and are presented in Note 3. ECAD does not use derivatives for speculative purposes or for leveraging returns, but rather these instruments may be used with the objectives of reducing overall portfolio risk and/or lowering the cost of investment management. ECAD believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2013, in accordance with FASB ASC 820-10-50.

Endowments

In August 2008, The Financial Accounting Standards Board (FASB) issued staff position No. FAS 117-1: *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* (FAS 117-1). FAS 117-1 provides accounting standards on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). FAS 117-1 also provides for other disclosures concerning an organization's endowment funds and whether or not the organization is subject to UPMIFA. The State of Connecticut adopted its version of UPMIFA, which became effective October 1, 2007 (CTPMIFA). Prior to the issuance of FAS 117-1, accumulated gains and income on donor restricted endowment assets were classified as unrestricted net assets. Under FSP No. 117-1, accumulated gains and income on donor-restricted endowment assets of perpetual duration are classified as temporarily restricted net assets until appropriated for expenditure.

ECAD's endowment consists of funds established for the purpose of providing income to help fund the general operations of the organization. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

The Board of Directors of ECAD has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ECAD classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECAD in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, ECAD considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of ECAD, and (7) ECAD's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

ECAD does not have a formal investment policy at this time.

Spending Policy

ECAD does not have a formal spending policy in place. Funds are kept in the endowment account and can only be used with Board approval.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Executive Director determines when receivables are delinquent and approves write-offs. Uncollectible amounts are generally immaterial, and no allowance has been established.

Property and Equipment

ECAD's policy is to capitalize property and equipment with an original cost, or if donated, at fair value at the date of donation of at least \$1,000 and a useful life in excess of one year. Property and equipment are depreciated using the double-declining method over the estimated useful life for existing assets. In 2012, the straight-line method was adopted for asset additions. Estimated useful lives are as follows:

Equipment and Fixtures	5 to 10 years
Buildings and Building Improvements	10 to 50 years
Vehicles	5 years

Depreciation expense for the year ended December 31, 2013 was \$44,338.

Inventory

Inventories consist of items on hand at year-end held for sale or to be distributed for a suggested donation, and are valued at cost.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or the passage of time are classified as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Public Support and Revenue

Contributions are recognized as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions when a promise is made. Donor-restricted contributions are reported as increases in temporarily and permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions are reported as increases to unrestricted net assets when restrictions expire in the reporting period that the contributions are reported as revenues.

Expense Allocation

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires ECAD to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Compensated Absences

Vacation time may not be carried into the next year without the written permission of ECAD. Vacation time will not accrue while the employee is on a leave of absence. ECAD does not permit advances against accrued vacation time. Vacation time is a vested benefit during the current year and unused time will be paid at the time of termination.

Advertising

All advertising costs are expensed in the current year because there is no expected future economic benefit.

Review for Subsequent Events

In connection with the preparation of the financial statements of ECAD as of and for the year ended December 31, 2013, events and transactions subsequent to December 31, 2013 through June 25, 2014, the date the financial statements were available to be issued, have been evaluated by ECAD's management for possible adjustment and/or disclosure.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

NOTE 2 – DETAIL NOTES ON ASSETS, LIABILITIES, AND NET ASSETS

Concentration of Credit Risk

At December 31, 2013, the carrying amount of ECAD's deposits was \$461,052 and the bank balance was \$461,010, of which \$314,903 is FDIC insured. The remaining \$146,107 is uninsured.

Investments

ECAD's investments at December 31, 2013 consist of money market, equities and mutual funds totaling \$172,836.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investment income is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Interest Income	\$ 724	\$ -
Dividends	-	7,541
Unrealized Gain (Loss)	-	(3,000)
	<u>\$ 724</u>	<u>\$ 4,541</u>

Deferred Revenue

Deferred revenue consists of amounts to be used to fund future client training.

Board Designated

Board designated funds consist of prior year surpluses set aside for long-term capital projects and endowment.

Capital Projects	\$ 46,500
Endowment	<u>110,000</u>
	<u>\$156,500</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 total \$172,836, which consists of Sky's Endowment Fund created in 2005.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Notes to Financial Statements

NOTE 3 – FAIR VALUE MEASUREMENTS

At December 31, 2013, the inputs used in valuing ECAD's investments, which are carried at fair value, were as follows:

<u>Description</u>	<u>12/31/2013</u>	<u>Quoted Priced in Active Markets for Identical Assets Level I</u>	<u>Significant Other Observable Inputs Level II</u>	<u>Significant Unobservable Inputs Level III</u>
Cash & Cash Equivalents	\$ 8,276	\$ 8,276	\$ -	\$ -
Equities	3,362	3,362	-	-
Mutual Funds	161,198	161,198	-	-
Total	\$ 172,836	\$ 172,836	\$ -	\$ -

NOTE 4 – ENDOWMENT FUNDS

Endowment net asset composition as of December 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
Board Designated	\$ 110,000	\$ -	\$ -	\$ 110,000
Donor Restricted	-	172,836	-	172,836
Total	\$ 110,000	\$ 172,836	\$ -	\$ 282,836

Changes in endowment net assets as of December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 110,000	\$ 218,295	\$ -	\$ 328,295
Investment Income	-	7,541	-	7,541
Net appreciation (depreciation)	-	(3,000)	-	(3,000)
Amounts appropriated for expenditure	-	(50,000)	-	(50,000)
	<u>\$ 110,000</u>	<u>\$ 172,836</u>	<u>\$ -</u>	<u>\$ 282,836</u>

EDUCATED CANINES ASSISTING WITH DISABILITIES
Notes to Financial Statements

NOTE 5 – LOAN PAYABLE

ECAD entered into an agreement for an auto loan requiring 60 monthly payments of \$543.12. Interest on the loan is calculated at 4.94%.

	<u>2013</u>
Balance Outstanding	\$ 24,932
Less: Short-Term Portion	<u>(5,407)</u>
Long-Term Portion	<u>\$ 19,525</u>

Payments for the next five years as follows:

2014	\$5,407
2015	5,680
2016	5,967
2017	6,269
2018	1,609

NOTE 6 – DONATED GOODS AND SERVICES

ECAD receives various donated goods and services from certain vendors, media providers, etc., primarily relating to the High School Programs and dogs' food and health. Donated goods and services totaling \$65,249 have been recorded. The organization receives free use of space from Children's Village; no dollar amount has been assigned.

The organization also receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort have not been satisfied.

NOTE 7 – RELATED PARTY TRANSACTION

The founders of ECAD have been married to each other for over 30 years, with one serving as the Executive Director and the other serving as the Director of K-9 development. In addition, their daughter is also employed in Human Resources and as a Project manager. For these duties, ECAD paid Salaries and Benefits of \$292,577 in 2013. The Executive Director's sister-in-law serves as secretary on the Board of Directors. She has served on the Board of Directors since the organization's inception. As with all members of the Board, no compensation was paid. ECAD's Board of Directors approved all compensation made to management of the organization.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to year end, ECAD entered into an agreement for an auto loan requiring 60 monthly payments of \$574.48. Interest is calculated at 5.99%.

EDUCATED CANINES ASSISTING WITH DISABILITIES

Schedule of Functional Expenses
For the Year Ended December 31, 2013

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 575,128	\$ 20,926	\$ 14,034	\$ 610,088
Payroll and Related Taxes	48,501	1,805	1,211	51,517
Advertising	30,319	12,257	12,551	55,127
Bad Debt	175	-	-	175
Bank Charges	-	2,528	-	2,528
Class Supplies & Trips	4,979	-	-	4,979
Contract Services	3,577	344	-	3,921
Depreciation	39,904	4,434	-	44,338
Dues & Subscriptions	-	105	-	105
ECADemy Expenses	13,904	-	-	13,904
Education & Conferences	2,622	2,395	-	5,017
Employee Benefits	33,973	3,775	-	37,748
Food/Dog Supplies	34,080	-	-	34,080
Gifts & Honorariums	238	-	-	238
Insurance	27,102	5,517	-	32,619
Internet Access & Web Hosting	30,780	3,420	-	34,200
Interest Expense	-	1,056	-	1,056
Kennel Expenses	12,677	-	-	12,677
Minor Equipment Purchases	1,402	-	-	1,402
Project Heal Program:				
Placement of Service Dogs	31,500	-	-	31,500
Other Expenses	838	-	-	838
Licenses and Registration	772	86	-	858
Miscellaneous	5,447	6,180	-	11,627
Office Supplies	-	17,185	5,303	22,488
Open Door Training	8,000	-	-	8,000
Postage and Shipping	13,207	1,468	843	15,518
Professional Fees & Charges	255,196	28,355	28,275	311,826
Public Relations	25,290	2,810	-	28,100
Repairs & Maintenance	13,272	1,108	-	14,380
Team Training	3,336	-	-	3,336
Telephone	6,681	742	-	7,423
Travel	4,512	-	-	4,512
Utilities	13,157	-	-	13,157
Transportation & Vehicle Expense	33,484	-	-	33,484
Veterinary Services	10,221	-	-	10,221
Total Functional Expenses	<u>\$ 1,284,274</u>	<u>\$ 116,496</u>	<u>\$ 62,217</u>	<u>\$ 1,462,987</u>

See accountant's report.