

**NATIONAL SERVICE DOG TRAINING
CENTRE INC.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015



SZCZEPSKI, RACOLTA, JENSEN & CO. LLP
LICENSED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Directors of National Service Dog Training Centre Inc.:

We have audited the accompanying financial statements of National Service Dog Training Centre Inc. which comprise of the statement of financial position as at December 31, 2015 and the statements of operations and surplus and cash flows for the year and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation 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 Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the National Service Dog Training Centre Inc. derives a portion of its revenue from the general public in the form of fees, donations and fundraising events which are not susceptible to complete audit verification. Accordingly, our verification of these revenues was limited to the accounting for the amounts recorded in the records of the organization. The organization's amortization policy on the building is not in accordance with Canadian accounting standards for not-for-profit organizations, since the organization is not amortizing its building on 1286 Cedar Creek, Cambridge, Ontario. If amortization was recorded the current year's additional charge would be \$11,930. The cumulative effect of this policy change from 2009 on the property and surplus would be \$84,365.

(page 1)

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2015 and the results of its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting standards for not-for-profit organizations.

Cambridge, Ontario
April 19, 2016

Szczepski, Racolta, Jensen & Co. LLP
Szczepski, Racolta, Jensen & Co. LLP
Licensed Public Accountants



NATIONAL SERVICE DOG TRAINING CENTRE INC.
(Incorporated under the laws of Canada)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015
(With comparative figures as at 2014)

	2015	2014
ASSETS		
CURRENT		
Bank	\$ 300,621	\$ 333,730
Accounts receivable	-	5,843
Temporary investments	93	2,032
Government remittances recoverable	<u>20,066</u>	<u>18,548</u>
	320,780	360,153
PROPERTY AND EQUIPMENT (note 2)	<u>599,316</u>	<u>581,732</u>
	<u>\$ 920,096</u>	<u>\$ 941,885</u>
LIABILITIES		
CURRENT		
Accounts, payable and accrued	\$ 28,871	\$ 18,805
Deferred revenue (note 4)	42,500	108,157
Scheduled repayments due within one year (note 5)	<u>13,182</u>	<u>12,632</u>
	84,553	139,594
DEFERRED REVENUE (note 4)	170,000	190,000
LONG-TERM DEBT (note 5)	<u>203,396</u>	<u>216,777</u>
	<u>457,949</u>	<u>546,371</u>
ORGANIZATION'S SURPLUS		
SURPLUS	<u>462,147</u>	<u>395,514</u>
	<u>\$ 920,096</u>	<u>\$ 941,885</u>

APPROVED ON BEHALF OF THE BOARD:

_____ Director

_____ Director

(See accompanying notes to financial statements)

NATIONAL SERVICE DOG TRAINING CENTRE INC.

STATEMENT OF OPERATIONS AND SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2015

(With comparative figures for 2014)

	2015	2014
REVENUE		
General donations	\$ 603,286	\$ 504,735
Fees	11,599	27,966
Gifts-in-kind	100,827	88,807
Events	<u>143,727</u>	<u>143,163</u>
	<u>859,439</u>	<u>764,671</u>
 EXPENDITURE		
Amortization	7,633	2,711
Animal care	95,189	57,139
Client services	53,333	45,207
General	46,876	81,151
Interest on long-term debt (note 5)	9,208	10,575
Marketing and fundraising material	20,820	19,026
Occupancy costs	40,528	39,878
Salaries and wages	418,392	365,328
Supplies, gifts-in-kind	<u>100,827</u>	<u>88,807</u>
	<u>792,806</u>	<u>709,822</u>
 EARNINGS BEFORE THE FOLLOWING	66,633	54,849
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	<u>-</u>	<u>(220)</u>
 EXCESS OF REVENUE OVER EXPENDITURE	66,633	54,629
SURPLUS, beginning	<u>395,514</u>	<u>340,885</u>
SURPLUS, ending	<u><u>\$ 462,147</u></u>	<u><u>\$ 395,514</u></u>

(See accompanying notes to financial statements)

NATIONAL SERVICE DOG TRAINING CENTRE INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative figures for 2014)

	2015	2014
OPERATING ACTIVITIES		
Excess of revenue over expenditure for the year	\$ 66,633	\$ 54,629
Charges not requiring cash:		
Amortization	7,620	2,711
Loss on disposal of property and equipment	<u>-</u>	<u>220</u>
	74,253	57,560
CHANGES IN NON-CASH WORKING CAPITAL		
Decrease (increase) in accounts receivable	5,843	(5,843)
Decrease (increase) in temporary investments	1,939	(2,032)
Increase in government remittances recoverable	(1,518)	(4,240)
Increase (decrease) in accounts, payable and accrued	10,066	(4,937)
(Decrease) increase in deferred revenue	<u>(85,657)</u>	<u>239,357</u>
Cash from operating activities	<u>4,926</u>	<u>279,865</u>
FINANCING ACTIVITIES		
Repayments of long-term debt	<u>(12,833)</u>	<u>(12,112)</u>
Cash used in financing activities	<u>(12,833)</u>	<u>(12,112)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(25,202)	(15,848)
Proceeds on disposal of property and equipment	<u>-</u>	<u>356</u>
Cash used in investing activities	<u>(25,202)</u>	<u>(15,492)</u>
(DECREASE) INCREASE IN CASH	(33,109)	252,261
BANK, beginning	<u>333,730</u>	<u>81,469</u>
BANK, ending	\$ <u><u>300,621</u></u>	\$ <u><u>333,730</u></u>

(See accompanying notes to financial statements)

NATIONAL SERVICE DOG TRAINING CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

PURPOSE OF THE ORGANIZATION

The organization is incorporated without share capital under the laws of Canada as a not for profit organization to operate a facility providing training of service dogs for individuals with disabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting standards for not-for-profit organizations and reflect the following policies:

(a) Temporary investments

Temporary investments consist of gifts-in-kind of financial securities. The securities are recognized initially at fair value on the date they are received. They are subsequently measured at fair value.

(b) Property and equipment

Property and equipment are recorded at cost. Amortization is provided at the following annual rates:

Building, 1286 Cedar Creek	- not amortized
Computer equipment	- 30% declining balance basis
Computer software	- 3 years on a straight line basis
Fencing	- 20% declining balance basis
Kennel equipment	- 20% declining balance basis
Maintenance equipment	- 20% declining balance basis
Office equipment	- 20% declining balance basis
Vehicles	- 30% declining balance basis

Amortization is calculated at one-half of the normal rate in the year of acquisition.

The land and building at 1286 Cedar Creek has been appraised by the Municipal Property Assessment Corporation at a value of \$638,000 which is in excess of its net book value of \$570,695. Accordingly, no amortization has been recorded by management in order to realistically disclose the organization's capital investment.

(c) Impairment of long-lived assets

A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the asset no longer has long-term service potential to the organization. No impairment has been recognized on long-lived assets.

(d) Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value. Financial assets measured at amortized cost include bank and temporary investments. Financial liabilities measured at amortized cost include accounts payable and long-term debt. The organization has designated temporary investments to be subsequently measured at fair value.

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NATIONAL SERVICE DOG TRAINING CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Revenue recognition

The organization's activities are supported through donations, grants and fundraising activities.

The organization follows the deferral method of accounting for contributions.

The organization recognizes revenue when the amount of revenue can be measured reliably and collectability is reasonably assured. Revenue is measured at the fair value of consideration received or receivable.

General donations are recognized in the period in which they are received. Restricted donations are recognized as deferred revenue in the period in which the donation is received and then are recognized as revenue as the expenses are incurred.

Gifts-in-kind are recognized at their estimated fair value when the goods are received. As there is often no readily available fair market for these goods, the Board uses its expertise and knowledge to estimate the fair value. The offsetting expense is always equal to the fair value.

Event revenue is recognized when the event revenue is earned, the amount collectible is known, and any performance of services have been completed.

(f) Income taxes

The organization is a registered charity under the Income Tax Act and is exempt from income tax.

(g) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting standards for not-for-profit organizations requires the organization's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from these estimates. Items material to the financial statements that require the use of estimates include the useful lives of property and equipment and the fair value of revenues and expenses recognized as gifts-in-kind.

2. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2015 Net Book Value	2014 Net Book Value
Building, 1286 Cedar Creek	\$ 408,695	\$ 38,000	\$ 370,695	\$ 370,695
Computer equipment	9,505	8,724	781	207
Computer software	7,450	3,725	3,725	6,208
Fencing	711	697	14	17
Kennel equipment	2,225	2,149	76	95
Land, 1286 Cedar Creek	200,000	-	200,000	200,000
Maintenance equipment	1,500	555	945	1,350
Office equipment	10,934	10,286	648	810
Vehicles	<u>88,709</u>	<u>66,277</u>	<u>22,432</u>	<u>2,350</u>
	<u>\$ 729,729</u>	<u>\$ 130,413</u>	<u>\$ 599,316</u>	<u>\$ 581,732</u>

NATIONAL SERVICE DOG TRAINING CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

3. BANK INDEBTEDNESS

The organization has an available operating loan facility from the TD Commercial Banking in the amount of \$140,000. Interest is charged on outstanding balances at prime plus 3%. Balance is due on demand and is secured by a general security agreement, limited first charge on 1286 Cedar Creek Road, Cambridge, Ontario in the amount of \$390,000 and assignment of fire insurance in the amount of \$390,000. As at December 31, 2015, there was no balance outstanding. The carrying value of security is \$570,695.

The operating loan facility requires that a covenant be maintained. As at December 31, 2015 the organization was in compliance with the lending covenants.

4. DEFERRED REVENUE

Deferred revenue represents designated contributions for which the organization has not yet spent the money on the specific expenditure. This revenue is deferred and recognized as revenue in the year in which related expenses are incurred. Examples include funds for service dogs trained but not placed throughout the year.

	2015	2014
Deferred revenue, beginning	\$ 298,157	\$ 58,800
Add: funds received in advance	10,000	298,157
Less: funds recognized in revenue during the year	<u>(95,657)</u>	<u>(58,800)</u>
Deferred contributions, ending	<u>\$ 212,500</u>	<u>\$ 298,157</u>

Contributions in the amount of \$170,000 are not expected to be spent until beyond January 1, 2017 and are therefore presented as long-term.

5. LONG-TERM DEBT

	2015	2014
TD Commercial Banking loan - repayable in monthly payments of \$1,837 principal plus interest, interest at 4.21%, due August 2028, secured by land and building at 1286 Cedar Creek Road, Cambridge, Ontario. The carrying value of the security is \$570,695.	\$ 216,578	\$ 229,409
Less scheduled repayments due within one year	<u>13,182</u>	<u>12,632</u>
	<u>\$ 203,396</u>	<u>\$ 216,777</u>

Interest expense for the above loan totalled approximately \$9,208 (2014 - \$10,575). Principal payments are as follows:

2016	\$ 13,182
2017	13,748
2018	14,337
2019	14,952
2020	15,593
thereafter	<u>144,766</u>
	<u>\$ 216,578</u>

The loans payable require that a covenant be maintained. As at December 31, 2015 the organization was in compliance with the lending covenants.

NATIONAL SERVICE DOG TRAINING CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

6. DONATED GOODS AND SERVICES

The work of the organization is dependent on volunteer services of the Board of Directors, various committees and other volunteers. The nature of other volunteer services provided is not verifiable and therefore is not recognized in these financial statements.

7. FINANCIAL INSTRUMENT RISKS

(a) Credit risk

Credit risk refers to the risk that other parties may default on their financial obligations.

The organization is exposed to credit risk on its bank balance.

Credit risk associated with bank is minimized substantially by ensuring that these assets are invested in a major financial institution.

The extent of the organization's exposure to credit risk did not change in 2015.

(b) Currency risk

Currency risk refers to the risk that the fair value of financial instruments will fluctuate in value relative to the Canadian dollar due to changes in foreign exchange rates. The organization does not have any financial instruments to be settled in a currency other than the Canadian dollar.

The organization is not exposed to significant currency risk.

The extent of the organization's exposure to currency risk did not change in 2015.

(c) Interest rate risk

Interest rate risk refers to the risk that the fair value of the financial instruments will fluctuate due to changes in market interest rates.

The organization is exposed to interest rate risk on their bank indebtedness and long-term debt facilities which are based on the TD Bank prime rate of interest. A 1% increase in the prime rate would increase interest rate expense approximately \$2,165.

The extent of the organization's exposure to interest rate risk did not change significantly in 2015.

(d) Liquidity risk

Liquidity risk refers to the risk that the company will not be able to meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of the company not being able to liquidate assets in a timely manner at a reasonable price.

The company meets its liquidity requirements by monitoring cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash. The company has a credit facility in place should it be required to meet temporary fluctuations in cash requirements (see Note 3).

The extent of the company's exposure to liquidity risk did not change in 2015.

NATIONAL SERVICE DOG TRAINING CENTRE INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2015

7. FINANCIAL INSTRUMENT RISKS - continued

(e) Other price risk

Other price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market.

The organization is not exposed to significant other price risks.

The extent of the organization's exposure to other price risk did not change in 2015.

(f) Market risk

Market risk refers to the risk that the fair value of financial instruments will fluctuate because of changes in market prices. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

The organization is not exposed to significant market risks.

The extent of the organization's exposure to market risk did not change in 2015.