

Background

Name: 4 PAWS FOR ABILITY INC

Mission: “4 Paws for Ability strives to be the leading provider of service dogs for children regardless of disability as well as adult children with caregiver guardianship who cannot live independently. 4 Paws assists veterans who have given selflessly to our country by providing service dogs which can assist with disabilities on a case by case basis, as well as adults living with hearing loss, diabetes, or Alzheimer’s” (4 Paws For Ability).

- NTEE¹ **Nonprofit Category:** P80, Services to Promote the Independence of Specific Populations

Research Question

The objective is to determine whether 4 Paws is overpaying their current Executive Director/CEO based on comparable nonprofit compensation. If the IRS determines that the board of directors of a nonprofit has given the Executive Director/CEO too large of a salary, then both the compensation of the Executive Director and board members are subject to large fines. When using the data and analysis available the conclusion is that 4 Paws is not overpaid and is at little risk of being audited by the IRS. This conclusion is discussed in detail in the analysis and conclusion section.

Peer Group Selection

The compensation of the Executive Director/CEO is compared against twenty-one other nonprofits based on total compensation, revenue, assets and age. The dataset was pulled from the 2019 IRS nonprofit data reports. The peer group was initially filtered by the NTEE code, but the peer group was still too large. It was subsequently filtered based on nonprofits with similar revenue and total compensation as 4 Paws, which resulted in a meaningful peer group. The resulting twenty-one peer organizations are included in the table below showing compensation, revenue, assets and age.

¹ National Taxonomy of Exempt Entities

Organization	Total Compensation	Revenue (\$)	Assets (\$)	Age (Yrs)
4 PAWS FOR ABILITY INC	\$113,941	\$4,776,398	\$6,827,548	22
ARDMORE INC	\$84,797	\$6,148,272	\$3,200,354	40
CINCINNATI THERAPEUTIC RIDING AND HORSEMANSHIP	\$78,082	\$408,348	\$1,361,738	36
CREATIVE LIVING INC	\$116,403	\$708,711	\$2,987,298	51
FOUNDATION FOR THE CHALLENGED	\$92,489	\$2,676,656	\$22,058,551	18
FREESSET INCORPORATED	\$36,444	\$388,389	\$269,901	8
IN RETURN	\$49,332	\$743,176	\$562,649	16
INDEPENDENT LIVING OPTIONS INC	\$75,426	\$2,583,547	\$2,315,109	43
NEW DIRECTIONS CAREER CENTER	\$103,132	\$1,076,874	\$551,976	40
OTTAWA RESIDENTIAL SERVICES INC	\$59,502	\$477,382	\$1,752,222	44
PIKE COUNTY ADULT ACTIVITIES CENTER	\$68,186	\$1,564,754	\$320,523	43
PILOT DOGS INC	\$145,903	\$2,501,105	\$14,549,891	70
PREGNANCY SOLUTIONS & SERVICES INC	\$62,400	\$455,590	\$661,821	24
RESIDENTIAL GROUP HOMES INC	\$32,830	\$2,378,798	\$1,901,965	36
SERVICES FOR INDEPENDENT LIVING	\$72,523	\$763,539	\$462,745	40
SERVING OUR NEIGHBORS MINISTRIES INC	\$90,086	\$491,920	\$95,455	11
SHALOM MINISTRIES	\$65,500	\$583,943	\$666,406	22
SOCIETY FOR HANDICAPPED CITIZENS INC-WARREN COUNTY	\$47,348	\$1,166,782	\$969,741	61
STEPPING STONES INC	\$145,161	\$6,477,972	\$7,014,327	57
TRI-COUNTY INDEPENDENT LIVING CENTER INC	\$63,355	\$571,010	\$946,741	35
WEST LIBERTY GARDEN APTS INC	\$192,366	\$442,011	\$3,286,487	41
WESTERN RESERVE INDEPENDENT LIVING CENTER INC	\$42,306	\$392,731	\$2,845,599	16
Minimum	\$32,830	\$388,389	\$95,455	8
Median	\$73,975	\$753,358	\$1,165,624	38
Maximum	\$192,366	\$6,477,972	\$22,058,551	70

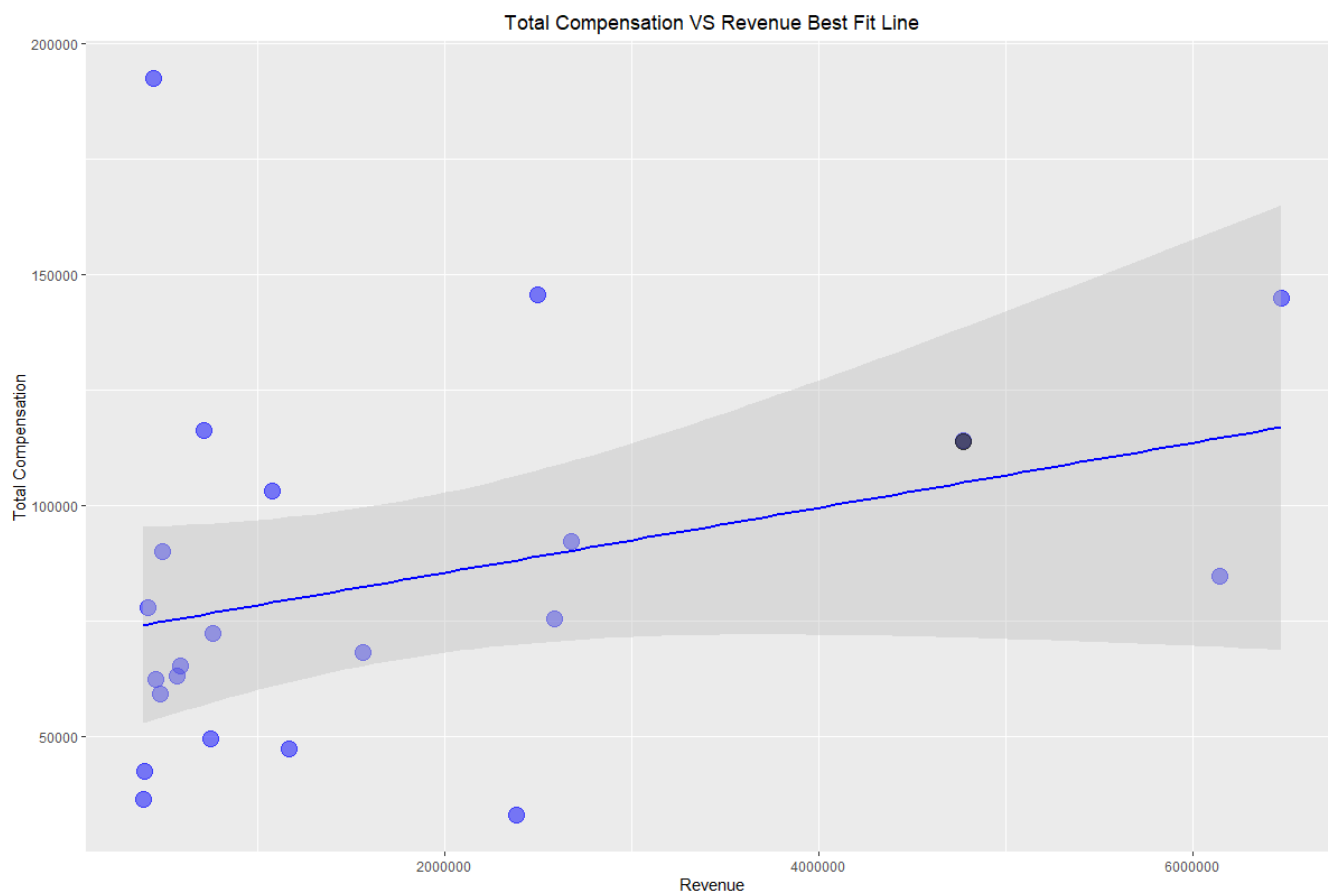
Compensation Analysis

CEO Current Compensation: **\$113,941**

CEO Compensation Percentile Ranking: **80th Percentile**

10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile
\$42,810	\$60,227	\$73,975	\$100,471	\$142,285

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Highest CEO Compensation (among peers)

Organization	Compensation
WEST LIBERTY GARDEN APTS INC	\$192,366
PILOT DOGS INC	\$145,903
STEPPING STONES INC	\$145,161

Lowest CEO Compensation (among peers)

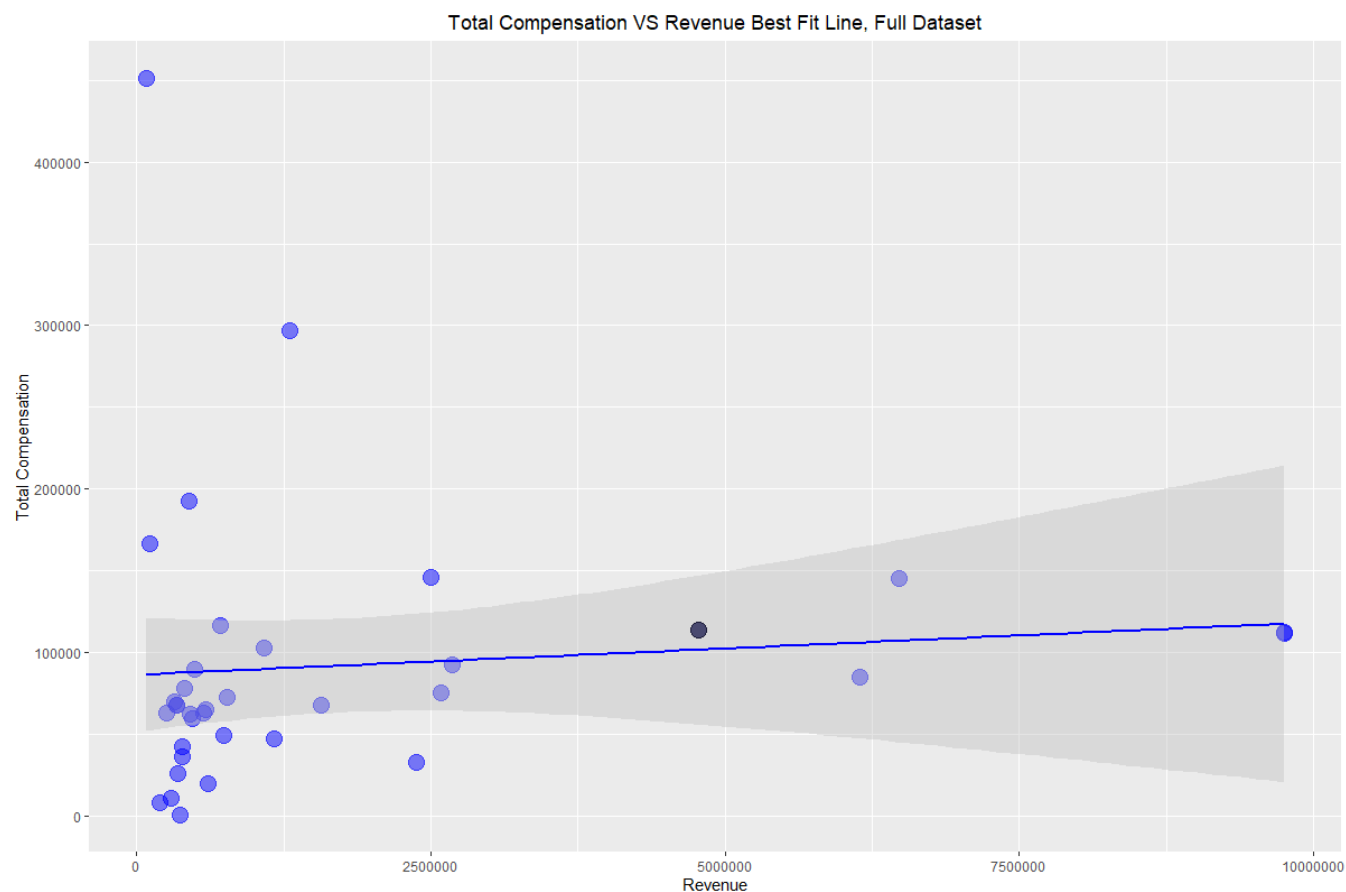
Organization	Compensation
RESIDENTIAL GROUP HOMES INC	\$32,830
FREESSET INCORPORATED	\$36,444
WESTERN RESERVE INDEPENDENT LIVING CENTER INC	\$42,306

Analysis and Conclusion

4 Paws Executive Director's total compensation is \$113,941, which when compared against the peer data, places it at the 80th percentile of total compensation. Because their Executive Director's compensation is beneath the 90th percentile, it cannot be immediately assumed that their Executive's Director is overpaid. The graph labeled "Total Compensation VS Revenue Best Fit Line", illustrates that 4 Paws revenue and total compensation falls right above the calculated best fit line highlighted in black. The graph shows that 4 Paws generates much more revenue than most of the peer group but is still paid relatively less than other lower revenue organizations, which adds merit to the conclusion that their Executive Director is not overpaid.

Seeing that 4 Paws Executive Director's compensation is at the 80th percentile potentially argues that the Executive Director is overpaid. Looking at the original dataset titled "Total Compensation VS Revenue Best Fit Line, Full Dataset", which contains the original dataset of thirty-six organizations graphed with the variables revenue and total compensation with 4 Paws highlighted black, it can be observed that it is in line with the estimated best fit line. The graph shows that 4 Paws is well within the estimated compensation for P80 registered nonprofits. In the full dataset graph, it is clear that 4 Paws compensation is farther out than many of the peer data points, but this can be explained by having a much larger yearly revenue than other comparable organizations that are located closer to the y axis.

The analysis of the data supports the conclusion that the Executive Director of 4 Paws is not overpaid and, therefore, the organization is at low risk of being audited by the IRS. This conclusion is supported by the fact that 4 Paws falls under the 90th percentile for compensation and falls relatively in line with the estimated best fit line for both the twenty-one and thirty-six peer groups. Overall, 4 Paws falls well within the comparable compensation for its nonprofit sector based on the data available.



Methodology

Data

The financial data used in this analysis can be found through the IRS Tax Stats webpage, which is sourced from a nonprofit organization's 990 form. Nonprofits are required to file form 990 with the IRS.

<https://www.irs.gov/statistics/soi-tax-stats-annual-extract-of-tax-exempt-organization-financial-data>

Peer Group Selection

Data comparability can make determining whether the Executive Director is over/under paid more difficult.

4 Paws, as a nonprofit, falls under the NTEE code P80, which is classified as "Services to Promote the Independence of Specific Populations". Within that sector there are organizations that provide service animals, such as 4 Paws, but also living assistance, such as independent living centers.

The original peer group was chosen by eliminating all organizations that did not align with the correct NTEE code (P80). To avoid interindustry wage differentials, only the specific nonprofit industry was used for

comparison. It was then cleaned with an algorithm to only display the organization, if it contained the Executive Director/CEO's total compensation.

https://www.irs.gov/pub/irs-tege/CUCP_FinalRpt_042513.pdf

The data of thirty-six organizations was filtered to find the twenty-one most similar organizations for the peer group analysis. The data was modified to exclude larger organizations, because of the wide gap between their total compensation and revenue relative to the smaller organizations in an effort to provide a more accurate picture. Outliers based on revenue and total compensation were redacted.

The data was then checked and analyzed to determine how the compensation compared to the peer group.

Within the peer group, the best fit lines were created using total compensation and revenue using RStudio. They were then added to each graph to help provide an estimation for compensation based on revenue. Within each graph, 4 Paws was highlighted to allow the reader to easily distinguish it from the peer group.

Citations

4 Paws For Ability. Retrieved October 05, 2020, from <https://4pawsforability.org/>

COLLEGES AND UNIVERSITIES COMPLIANCE PROJECT FINAL REPORT. (2013, April 25). Retrieved October 05, 2020, from https://www.irs.gov/pub/irs-tege/CUCP_FinalRpt_042513.pdf

SOI Tax Stats - Annual Extract of Tax-Exempt Organization Financial Data. (2020, May 28). Retrieved October 05, 2020, from <https://www.irs.gov/statistics/soi-tax-stats-annual-extract-of-tax-exempt-organization-financial-data>