

K9S FOR WARRIORS, INC.
K9S FOR WARRIORS RESEARCH INSTITUTE, INC.

Consolidated Financial Statements
Years Ended December 31, 2020 and 2019



K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.

Table of Contents

	<u>Page</u>
Independent Auditor’s Report.....	1-2
Consolidated Financial Statements:	
Consolidated Statement of Financial Position as of December 31, 2020.....	3
Consolidated Statement of Financial Position as of December 31, 2019.....	4
Consolidated Statement of Activities for the Year Ended December 31, 2020.....	5
Consolidated Statement of Activities for the Year Ended December 31, 2019.....	6
Consolidated Statement of Functional Expenses for the Year Ended December 31, 2020.....	7
Consolidated Statement of Functional Expenses for the Year Ended December 31, 2019.....	8
Consolidated Statement of Cash Flows for the Year Ended December 31, 2020.....	9
Consolidated Statement of Cash Flows for the Year Ended December 31, 2019.....	10
Notes to the Consolidated Financial Statements.....	11-21



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
K9s For Warriors, Inc.
Jacksonville, Florida

Opinion

We have audited the accompanying consolidated financial statements of K9s For Warriors Inc. and K9s For Warriors Research Institute, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of K9s For Warriors Inc. and K9s For Warriors Research Institute, Inc. as of December 31, 2020 and 2019, and the changes in their net assets and their 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 consolidated Financial Statements section of our report. We are required to be independent of the Organization 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, including omissions, 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 consolidated 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 consolidated 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 consolidated 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 the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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.

Restatement of 2019 Opening Balances

As discussed in Note 3 to the consolidated financial statements, K9s For Warriors, Inc. restated certain opening balances of its 2019 consolidated financial statements related to costs of procurement, care and training of canines improperly capitalized in prior years. Our opinion is not modified with respect to this matter. The 2018 consolidated financial statements, not presented herein, were audited by other auditors.

PIVOT CPAs

Ponte Vedra Beach, Florida
May 20, 2021

Consolidated Financial Statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Financial Position

<i>December 31, 2020</i>	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Elimination	Total
Assets				
Cash and cash equivalents	\$ 4,867,494	\$ 36,185	\$ -	\$ 4,903,679
Investments	12,688,078	-	-	12,688,078
Contributions receivable, net	26,734	-	-	26,734
Due from related parties	1,764,392	-	(1,559,308)	205,084
Pledges receivable, net	730,000	-	-	730,000
Inventory	44,914	-	-	44,914
Prepays	121,171	-	-	121,171
Total Current Assets	20,242,783	36,185	(1,559,308)	18,719,660
Pledges receivable long term, net	1,505,864	-	-	1,505,864
Property and equipment	11,484,720	-	-	11,484,720
Total Assets	\$ 33,233,367	\$ 36,185	\$ (1,559,308)	\$ 31,710,244
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 422,880	\$ 16,849	\$ -	\$ 439,729
Due to related parties	65,190	1,559,308	(1,559,308)	65,190
Deferred revenue	387,724	-	-	387,724
PPP loan	906,897	-	-	906,897
Total Current Liabilities	1,782,691	1,576,157	(1,559,308)	1,799,540
Net Assets				
With donor restrictions	4,177,856	-	-	4,177,856
Without donor restrictions	27,272,820	(1,539,972)	-	25,732,848
Total Net Assets	31,450,676	(1,539,972)	-	29,910,704
Total Liabilities and Net Assets	\$ 33,233,367	\$ 36,185	\$ (1,559,308)	\$ 31,710,244

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Financial Position

<i>December 31, 2019</i>	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Elimination	Total
Assets				
Cash and cash equivalents	\$ 2,918,930	\$ 40,779	\$ -	\$ 2,959,709
Investments	11,805,303	-	-	11,805,303
Contributions receivable, net	114,402	-	-	114,402
Due from related parties	1,215,994	-	(1,032,920)	183,074
Pledges receivable, net	650,000	-	-	650,000
Inventory	100,749	-	-	100,749
Prepays	293,514	-	-	293,514
Total Current Assets	17,098,892	40,779	(1,032,920)	16,106,751
Pledges receivable long term, net	1,597,688	-	-	1,597,688
Property and equipment	9,345,306	-	-	9,345,306
Total Assets	\$ 28,041,886	\$ 40,779	\$ (1,032,920)	\$ 27,049,745
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 660,856	\$ 11,710	\$ -	\$ 672,566
Due to related party	-	1,032,920	(1,032,920)	-
Deferred revenue	42,062	-	-	42,062
Total Current Liabilities	702,918	1,044,630	(1,032,920)	714,628
Net Assets				
With donor restrictions	4,257,291	-	-	4,257,291
Without donor restrictions	23,081,677	(1,003,851)	-	22,077,826
Total Net Assets	27,338,968	(1,003,851)	-	26,335,117
Total Liabilities and Net Assets	\$ 28,041,886	\$ 40,779	\$ (1,032,920)	\$ 27,049,745

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Activities

<i>Year ended December 31, 2020</i>	K9s For Warriors, Inc.			K9s For Warriors Research Institute, Inc.	
	Without donor restrictions	With donor restrictions	Total	Without Donor Restrictions	Total
Revenue and Support					
Contributions	\$ 9,605,161	\$ 1,813,619	\$ 11,418,780	\$ 5,380	\$ 11,424,160
Contributions in-kind	610,455	-	610,455	-	610,455
Grants	790,819	-	790,819	-	790,819
Interest and investment income	236,250	-	236,250	87	236,337
Miscellaneous income	69,769	-	69,769	-	69,769
Net change in unrealized gain/(loss) on investments	676,484	-	676,484	-	676,484
Assets released from restriction	1,893,054	(1,893,054)	-	-	-
Total Revenue and Support	13,881,992	(79,435)	13,802,557	5,467	13,808,024
Expenses					
Program services	7,626,110	-	7,626,110	-	7,626,110
Management and general	649,218	-	649,218	541,588	1,190,806
Fundraising	1,415,521	-	1,415,521	-	1,415,521
Total Expenses	9,690,849	-	9,690,849	541,588	10,232,437
Change in net assets	4,191,143	(79,435)	4,111,708	(536,121)	3,575,587
Net assets, beginning of year	23,081,677	4,257,291	27,338,968	(1,003,851)	26,335,117
Net assets, end of year	\$ 27,272,820	\$ 4,177,856	\$ 31,450,676	\$ (1,539,972)	\$ 29,910,704

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Activities

<i>Year ended December 31, 2019</i>	K9s For Warriors, Inc.			K9s For Warriors Research Institute, Inc.	
	Without donor restrictions	With donor restrictions	Total	Without Donor Restrictions	Total
Revenue and Support					
Contributions	\$ 7,593,378	\$ 2,059,537	\$ 9,652,915	\$ 125,040	\$ 9,777,955
Contributions in-kind	2,550,290	-	2,550,290	-	2,550,290
Grants	595,840	-	595,840	-	595,840
Interest and investment income	238,314	-	238,314	397	238,711
Miscellaneous income	57,055	-	57,055	-	57,055
Net change in unrealized gain/(loss) on investments	1,160,989	-	1,160,989	-	1,160,989
Assets released from restriction	2,326,526	(2,326,526)	-	-	-
Total Revenue and Support	14,522,392	(266,989)	14,255,403	125,437	14,380,840
Expenses					
Program services	8,039,117	-	8,039,117	-	8,039,117
Management and general	571,652	-	571,652	448,471	1,020,123
Fundraising	1,438,127	-	1,438,127	-	1,438,127
Total Expenses	10,048,896	-	10,048,896	448,471	10,497,367
Change in net assets	4,473,496	(266,989)	4,206,507	(323,034)	3,883,473
Net assets, beginning of year	23,417,287	4,524,280	27,941,567	(680,817)	27,260,750
Adjustment to beginning balance	(4,809,106)	-	(4,809,106)	-	(4,809,106)
Net assets adjusted, beginning of year	18,608,181	4,524,280	23,132,461	(680,817)	22,451,644
Net assets, end of year	\$ 23,081,677	\$ 4,257,291	\$ 27,338,968	\$ (1,003,851)	\$ 26,335,117

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Functional Expenses

<i>Year ended December 31, 2020</i>	K9s For Warriors, Inc.				K9s For Warriors Research Institute, Inc.	
	Program Services	Fundraising	Management and General	Total	Management and General	Total
Personnel Costs						
Salaries	\$ 3,725,345	\$ 364,130	\$ 141,385	\$ 4,230,860	\$ 327,844	\$ 4,558,704
Employee fringe benefits	435,266	57,155	17,894	510,315	19,853	530,168
Payroll taxes	250,601	33,421	8,138	292,160	21,818	313,978
Total Personnel Costs	4,411,212	454,706	167,417	5,033,335	369,515	5,402,850
Professional services	171,234	49,403	242,676	463,313	159,635	622,948
Business travel	50,718	5,980	24,218	80,916	242	81,158
Depreciation	521,558	-	-	521,558	-	521,558
Insurance	128,807	291	21,800	150,898	-	150,898
Service canines expense	790,540	-	1,909	792,449	106	792,555
Warrior expense	148,633	68	-	148,701	-	148,701
Operating supplies & expenses	1,403,408	905,073	191,198	2,499,679	12,090	2,511,769
Total Non-Personnel	3,214,898	960,815	481,801	4,657,514	172,073	4,829,587
Total Expenses	\$ 7,626,110	\$ 1,415,521	\$ 649,218	\$ 9,690,849	\$ 541,588	\$ 10,232,437

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Functional Expenses

<i>Year ended December 31, 2019</i>	K9s For Warriors, Inc.				K9s For Warriors Research Institute, Inc.	
	Program Services	Fundraising	Management and General	Total	Management and General	Total
Personnel Costs						
Salaries	\$ 3,514,081	\$ 310,890	\$ 162,157	\$ 3,987,128	\$ 263,756	\$ 4,250,884
Employee fringe benefits	541,492	77,443	30,811	649,746	16,187	665,933
Payroll taxes	225,378	37,712	10,205	273,295	12,603	285,898
Total Personnel Costs	4,280,951	426,045	203,173	4,910,169	292,546	5,202,715
Professional services	594,965	328,451	182,188	1,105,604	130,770	1,236,374
Business travel	104,896	24,057	83,923	212,876	8,980	221,856
Depreciation	457,922	-	23,611	481,533	-	481,533
Insurance	77,006	872	29,507	107,385	-	107,385
Service canines expense	793,984	-	-	793,984	-	793,984
Warrior expense	201,570	-	-	201,570	16,175	217,745
Operating supplies & expenses	1,527,823	658,702	49,250	2,235,775	-	2,235,775
Total Non-Personnel	3,758,166	1,012,082	368,479	5,138,727	155,925	5,294,652
Total Expenses	\$ 8,039,117	\$ 1,438,127	\$ 571,652	\$ 10,048,896	\$ 448,471	\$ 10,497,367

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Cash Flows

<i>Year ended December 31, 2020</i>	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Eliminating Entries	Total
Cash flows from operating activities:				
Change in net assets	\$ 4,111,708	\$ (536,121)	\$ -	\$ 3,575,587
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized gain on investments	(2,513,354)	-	-	(2,513,354)
Depreciation	521,558	-	-	521,558
Loss on disposal of fixed asset	247,929	-	-	247,929
Net change in:				
Contributions receivable	87,668	-	-	87,668
Pledges receivable, net	11,824	-	-	11,824
Inventory	55,835	-	-	55,835
Prepaid expense	172,343	-	-	172,343
Due to related party	(22,009)	526,388	(526,388)	(22,009)
Due from related party	(461,198)	-	526,388	65,190
Deferred revenue	345,662	-	-	345,662
Accounts payable and accrued expenses	(232,704)	5,139	-	(227,565)
Net cash provided by (used in) operating activities	2,325,262	(4,594)	-	2,320,668
Cash flows from investing activities:				
Capital expenditures	(2,908,901)	-	-	(2,908,901)
Purchase of investments	(2,446,692)	-	-	(2,446,692)
Proceeds from sale of investments	4,077,271	-	-	4,077,271
Net cash used in investing activities	(1,278,322)	-	-	(1,278,322)
Cash flows from financing activities:				
Proceeds from PPP loan	901,624	-	-	901,624
Net cash provided by financing activities	901,624	-	-	901,624
Net change in cash and cash equivalents	1,948,564	(4,594)	-	1,943,970
Cash and cash equivalents at beginning of year	2,918,930	40,779	-	2,959,709
Cash and cash equivalents at end of year	\$ 4,867,494	\$ 36,185	\$ -	\$ 4,903,679
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Consolidated Statement of Cash Flows

<i>Year ended December 31, 2019</i>	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Eliminating Entries	Total
Cash flows from operating activities:				
Change in net assets	\$ 4,206,507	\$ (323,034)	\$ -	\$ 3,883,473
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Net realized gain on investments	(753,247)	-	-	(753,247)
Bad debt expense	6,021	-	-	6,021
Depreciation	481,533	-	-	481,533
Loss on disposal of fixed asset	34,109	-	-	34,109
Net change in:				
Contributions receivable	(120,423)	-	-	(120,423)
Pledges receivable, net	201,336	-	-	201,336
Inventory	(11,369)	-	-	(11,369)
Prepaid expense	(126,265)	1,000	-	(125,265)
Due to related party	-	397,445	(397,445)	-
Due from related party	(441,132)	-	397,445	(43,687)
Deferred revenue	42,062	-	-	42,062
Accounts payable and accrued expenses	351,904	(34,632)	-	317,272
Net cash provided by operating activities	3,871,036	40,779	-	3,911,815
Cash flows from investing activities:				
Capital expenditures	(3,156,567)	-	-	(3,156,567)
Purchase of investments	(10,693,927)	-	-	(10,693,927)
Proceeds from sale of investments	7,906,280	-	-	7,906,280
Net cash used in investing activities	(5,944,214)	-	-	(5,944,214)
Cash flows from financing activities:				
Payments on capital lease	(49,589)	-	-	(49,589)
Net cash used in financing activities	(49,589)	-	-	(49,589)
Net change in cash and cash equivalents	(2,122,767)	40,779	-	(2,081,988)
Cash and cash equivalents at beginning of year	5,041,697	-	-	5,041,697
Cash and cash equivalents at end of year	\$ 2,918,930	\$ 40,779	\$ -	\$ 2,959,709

The accompanying notes are an integral part of these consolidated financial statements

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

1. Nature of Business:

K9s For Warriors, Inc. (“K9s”) is a not-for-profit organization (incorporated) founded in 2011, committed to providing service canines to United States veterans suffering from post-traumatic stress disorder, traumatic brain injury, and/or military sexual trauma as a result of post-September 11, 2001 military service. K9s trains the canines and matches them with warriors, who work with their canines for three weeks. Many of the canines are rescues, but some come from private donors or are purchased.

K9s For Warriors Research Institute, Inc. (“K9RI”) is a not-for-profit organization (incorporated) founded in 2016, devoted to work to advance the mission of K9s through dedicated research, to give back hope to the nation’s military heroes.

K9s and K9RI are collectively referred to as the Organization.

2. Summary of Significant Accounting Policies:

Basis of Accounting

The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with US GAAP. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization’s net assets and changes thereto are classified and reported as follows:

Net assets without donor restrictions – consists of amounts that are available for use in carrying out the supporting activities of the Organization and are not subject to donor-imposed stipulations.

Net assets with donor restrictions – consists of amounts that are restricted for specific operations of the Organization and pledges that are restricted by time. These amounts are subject to donor-imposed stipulations that will be met by the Organizations actions in the execution of events. When a restriction is satisfied, the associated amount is reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and activities of the Organization and its subsidiary. All material inter-company balances and transactions have been eliminated in consolidation.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued):

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses and gains and losses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments. Any liquid financial instruments that have an original maturity of ninety days or less when purchased are considered cash equivalents.

Contributions and Pledges Receivable

Contributions and pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value based on the present value of their estimated future cash flows. Discounts are computed using market rates. Amortization of the discounts is included in contributed income. The Organization evaluates the collectability of receivables and records an allowance for uncollectible receivables when collection is determined to be unlikely. At December 31, 2020 and 2019, the allowance for uncollectible receivables totaled \$123,657 and \$129,771, respectively.

Investments

Investments are reported at their estimated fair values in the consolidated statements of financial position as described in Note 4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are reflected in the consolidated statements of activities. Investment advisory and other fees of \$76,939 and \$85,139 are included in the consolidated statement of functional expenses for the years ended December 31, 2020 and 2019, respectively.

Property and Equipment

Property and equipment greater than \$2,500 are recorded at historical cost or fair value if donated. When items of property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation or amortization accounts are eliminated, and any gain or loss is included in the consolidated statements of activities.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were approximately \$86,225 and \$33,668 for the years ended December 31, 2020 and 2019, respectively.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued):

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings	5-39
Vehicles	5-8
Land improvements	15
Furniture and equipment	3-7

Inventories

Inventories are carried at the lower of cost or net realizable value and consists of promotional merchandise for sale. The Organization evaluates inventory annually for indicators of obsolescence.

Contributions and Donor-Imposed Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, donor restricted net assets are reclassified to without donor restriction net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as without donor restrictions.

The Organization reports gifts of land, buildings and equipment as without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give are recognized as support in the period received and recorded as assets, reductions of liabilities, or expenses depending on the form of the benefits received.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued):

Contributed Services

Contributed services are recognized and recorded at fair value only to the extent they create and enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. K9 typically recognizes contributed services related to project construction, repairs and maintenance, and information technology. There were contributed services for professional services totaling \$25,196 and \$12,177 during the years ended December 31, 2020 and 2019, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. No amounts have been reflected in the consolidated statements for these contributed services since the contribution of these services did not create or enhance non-financial assets or require specialized skills.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include administrative salaries and benefits, which are allocated based on estimates of time and effort by personnel to each program.

Income Taxes

K9s and K9RI are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. As such, only unrelated business income is subject to income tax.

The Organization evaluates its tax positions for any uncertainties based on the technical merits of the positions taken. The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be upheld on examination by taxing authorities. The Organization has analyzed the tax positions taken and has concluded that as of December 31, 2020 and 2019, there were no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the consolidated financial statements.

Management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, including federal and certain state taxing authorities. With few exceptions, at December 31, 2020, the Organization was no longer subject to U.S. federal, state or local income tax examinations by taxing authorities for years before 2017. As of and for the year ended December 31, 2020, the Organization did not have a liability for any unrecognized taxes. The Organization has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax liabilities will significantly change in the next twelve months.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued):

New Accounting Standards – Recently Adopted

Effective January 1, 2019, the Organization adopted Accounting Standards Update (“ASU”) No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance about whether a transfer of assets is a contribution or an exchange transaction, as well as clarifying how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The adoption of ASU 2018-08 had no significant impact on the Organization’s consolidated financial statements.

Effective January 1, 2019, the Organization adopted ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing accounting standards and creates a single framework for revenue recognition. The adoption of ASU 2014-09 had no significant impact on the Organization’s consolidated financial statements.

Recent Accounting Pronouncements – Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This guidance amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. It also makes targeted changes to lessor accounting, including a change to the treatment of initial direct leasing costs, which no longer considers fixed internal leasing salaries as capitalizable costs. The standard is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

3. Restatement of 2019 Opening Balances:

Prior to 2019, the Organization capitalized the cost of procurement, care and training of canines as a biological asset and depreciated the capitalized cost of the canine over five years. During the year ended December 31, 2019, management determined that it had incorrectly accounted for the procurement, care and training of canines in prior years in accordance with accounting principles generally accepted in the United States of America. Canines are not an asset of the Organization because they do not provide future benefit to the Organization, accordingly all costs related to procurement, care and training of a canine should be expensed as a program service expense in the period incurred. The effect of the correction of this error was a decrease in property and equipment related to the book value of canines of \$4,809,106 and a decrease in the net assets of K9s For Warriors, Inc. of \$4,809,106 as of January 1, 2019.

4. Fair Value Measurements:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Accounting Standards Codification 820, Fair Value Measurement, are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds: The fair values of mutual fund investments are determined by obtaining quoted prices on nationally recognized securities exchange (Level 1 inputs).

Corporate and municipal bonds: Valued using matrix pricing. Matrix pricing is a mathematical technique used without relying exclusively on quoted prices for the specific investments, but rather on the investments' relationship to other benchmark quoted investments. (Level 2 inputs)

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

4. Fair Value Measurements (Continued):

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

<i>December 31, 2020</i>	Cash and cash equivalents			Level 1	Level 2	Total
Corporate bonds	\$	-	\$	-	\$ 1,165,926	\$ 1,165,926
Municipal bonds		-		-	499,757	499,757
Mutual funds:						
Domestic equity		-		3,934,517	-	3,934,517
Fixed Income		-		2,482,692	-	2,482,692
International equity		-		1,896,319	-	1,896,319
Infrastructure		-		108,939	-	108,939
Reit		-		108,505	-	108,505
Money market funds		2,491,423		-	-	2,491,423
Total	\$	2,491,423	\$	8,530,972	\$ 1,665,683	\$ 12,688,078

<i>December 31, 2019</i>	Cash and cash equivalents			Level 1	Level 2	Total
Corporate bonds	\$	-	\$	-	\$ 872,454	\$ 872,454
Municipal bonds		-		-	473,928	473,928
Mutual funds:						
Domestic equity		-		3,747,632	-	3,747,632
Fixed Income		-		2,404,077	-	2,404,077
International equity		-		1,819,412	-	1,819,412
Infrastructure		-		111,718	-	111,718
Reit		-		109,625	-	109,625
Money market funds		2,266,457		-	-	2,266,457
Total	\$	2,266,457	\$	8,192,464	\$ 1,346,382	\$ 11,805,303

5. Pledges Receivable:

Amounts due from pledges receivable are generated from individual and corporate donors. Pledges receivable are due in future years as follows:

<i>December 31,</i>	2020	2019
Receivable in less than one year	\$ 730,000	\$ 650,000
Receivable between one to five years	1,715,000	1,825,000
	2,445,000	2,475,000
Less allowances and discounts (5% to 8%)	(209,136)	(227,312)
Net pledges receivable	\$ 2,235,864	\$ 2,247,688

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

6. Property and Equipment:

Property and Equipment consisted of the following:

<i>December 31,</i>	2020	2019
Buildings	\$ 7,745,717	\$ 5,600,181
Work in progress	675,974	375,457
Land	2,889,936	2,889,936
Vehicles	828,202	725,801
Land improvements	736,885	723,919
Furniture and equipment	756,293	675,101
Total property and equipment	13,633,007	10,990,395
Less: accumulated depreciation	(2,148,287)	(1,645,089)
Property and equipment, net	\$ 11,484,720	\$ 9,345,306

Depreciation expense totaled \$521,558 and \$481,533 for the years ended December 31, 2020 and 2019, respectively.

7. PPP Loan:

On May 11, 2020, the Organization received a \$901,624 loan made pursuant to the terms of the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The loan has a two-year term and accrues simple interest at a fixed annual rate of 1.00%. Under the terms of the CARES Act guidelines, a portion of the loan up to 100% may be forgiven by the U.S. Small Business Administration if the amount spent is within the timeframe and under the guidelines that have been set for forgiveness. At December 31, 2020, principal and interest totaling \$906,897 are outstanding. On February 1, 2021, the Organization received notice of forgiveness of its PPP loan in its entirety.

8. Contributions In-Kind:

The Organization received the following non-cash contributions:

<i>Years ended December 31,</i>	2020	2019
Goods and services	\$ 555,446	\$ 332,385
Stock donations	53,616	230,539
Gift cards	1,393	5,137
Land	-	1,771,829
Building	-	180,000
Equipment	-	30,400
Total in-kind contributions	\$ 610,455	\$ 2,550,290

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

9. Net Assets:

Net assets with donor restrictions

Proceeds from certain contributions are reported as an increase in net assets with donor restrictions. These contributions are restricted for as follows:

<u>December 31,</u>	2020	2019
Pledges receivable	\$ 2,445,000	\$ 2,475,000
Dog sponsorships	1,700,356	1,749,791
Miscellaneous equipment	32,500	32,500
Total net assets with donor restrictions	\$ 4,177,856	\$ 4,257,291

Net assets were released from restrictions as follows:

<u>Years ended December 31,</u>	2020	2019
Pledges collected	\$ 1,250,000	\$ 387,763
Dogs sponsored	643,054	1,439,904
Equipment	-	25,000
Capital improvements	-	473,859
Total released	\$ 1,893,054	\$ 2,326,526

Net assets without donor restrictions

At December 31, 2020 and 2019, all unrestricted net assets are undesignated as to their use.

10. Liquidity and Availability of Resources:

The financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on capital lease, were as follows as of December 31:

<u>December 31,</u>	2020	2019
Financial assets:		
Investments	\$12,688,078	\$11,805,303
Cash	4,903,679	2,959,709
Contributions receivable	26,734	114,402
Pledges receivable	730,000	650,000
Due from related party	205,084	183,074
Total financial assets available within one year	\$18,553,575	\$15,712,488

The Organization maintains its investments in a board-designated reserve fund to be available for operating shortfalls.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

11. Related Party Transactions:

At December 31, 2020 and 2019, K9RI owed K9s \$1,559,308 and \$1,032,920, for operating expenses, respectively. The amount due is non-interest bearing and is expected to be repaid as funds become available from K9RI.

American Service Dog Access Coalition (“ASDAC”) is a related party to K9s through an economic interest. As of December 31, 2020 and 2019, ASDAC owed K9s \$205,084 and \$183,074 for start-up and operating costs paid by K9s, respectively. As of December 31, 2020, K9s owed ASDAC \$65,190 for outstanding pledges.

During 2020, K9s made contributions of \$75,000 to ASDAC. This contribution expense is included in operating supplies and expenses. There were no contributions to ASDAC in 2019. During 2020 and 2019, K9s paid \$18,801 and \$18,570, respectively, to Business Intelligence, a vendor of the Organization, owned by a relative of the President of K9s.

12. Retirement Plans:

The Organization sponsors a 401(k) tax-deferred plan allowing for employee elective deferrals and employer matching contributions. Employer contributions for the year ended December 31, 2020 and 2019 was \$81,642 and \$83,744, respectively.

13. Concentrations:

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2020 and 2019, the Organization had approximately \$4.4 and \$2.5 million in excess of FDIC insured limits. The Organization does not believe it is exposed to any significant credit risks on these deposits, respectively.

The Organization received contributions from two donors totaling \$2,869,560, which represented approximately 22% of total contribution revenues, during the year ended December 31, 2020. Pledges receivable from these donors accounted for approximately 54% of total pledges receivable at December 31, 2020. The Organization received contributions from one donor totaling \$1,700,000, which represented approximately 13% of total contribution revenues, during the year ended December 31, 2019. There were no pledges receivable from this donor at December 31, 2019.

14. Commitments and Contingencies:

Litigation

In the ordinary course of business, the Organization may become involved in various legal proceedings. Based upon the Organization’s evaluation of the information presently available, management is unaware of any such claims or legal proceedings, in which the ultimate resolution would have a material adverse effect on the Organization’s consolidated financial position, liquidity, or results of operations.

K9s For Warriors, Inc. and K9s For Warriors Research Institute, Inc.
Notes to Consolidated Financial Statements

14. Commitments and Contingencies (Continued):

Operating Leases

The Organization has operating leases related to various pieces of equipment. Operating lease rent payments totaled \$10,589 and \$9,224 in 2020 and 2019, respectively. The leases have start dates beginning October 2015 and maturing in July 2025. There are no escalating payment terms.

The following table represents the future minimum payment on leases as of December 31, 2020:

<i>Year ended December 31,</i>	
2021	\$ 13,011
2022	13,011
2023	13,011
2024	13,011
2025	7,292
Total minimum lease payments	\$ 59,336

15. Subsequent Events:

Events occurring after December 31, 2020, the date of the most recent consolidated financial statements, have been evaluated for possible adjustments to the consolidated financial statements or disclosures through May 20, 2021, which is the date the consolidated financial statements were available to be issued. No material subsequent events have occurred through that date that require recognition or disclosure in the consolidated financial statements, except as described below.

The Organization entered into a line of credit with available credit up to \$4 million effective April 2, 2021. The line of credit includes interest at LIBOR plus 1.40% with a minimum interest rate of 1.4%. The line of credit requires interest payable monthly with principal due upon maturity. There have been no advances on the line of credit as of the May 20, 2021, the date of the report