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

Consolidated Financial Statements
Years Ended December 31, 2022 and 2021

PIVOT CPAs
AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of K9s For Warriors Inc. and K9s For Warriors Research Institute, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2022 and 2021, 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of K9s For Warriors Inc. and K9s For Warriors Research Institute, Inc. as of December 31, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit. 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 the 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 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 Responsibilities 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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.

Pivot CPAs

Ponte Vedra Beach, Florida
June 6, 2023

Consolidated Financial Statements

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

December 31, 2022	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Elimination	Total
Assets				
Cash	$ 3,955,752	$ -	$ -	$ 3,955,752
Investments	10,767,220	-	-	10,767,220
Contributions receivable, net	76,360	-	-	76,360
Pledges receivable, net	1,145,000	-	-	1,145,000
Inventory	38,355	-	-	38,355
Prepaids	188,681		-	188,681
Total Current Assets	16,171,368	-	-	16,171,368
Pledges receivable long term, net	359,568	-	-	359,568
Right of use asset	176,963	-	-	176,963
Property and equipment	25,732,756	-	-	25,732,756
Total Assets	$ 42,440,655	$ -	$ -	$ 42,440,655
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$ 1,855,683	$ -	$ -	$ 1,855,683
Debt, current portion	48,783	-	-	48,783
Lease liability, current portion	100,727	-	-	100,727
Total Current Liabilities	2,005,193	-	-	2,005,193
Long Term Liabilities				
Lease liability, net of current portion	76,235	-	-	76,235
Long term debt, net of current portion	811,769	-	-	811,769
Line of Credit	8,000,000	-	-	8,000,000
Total Liabilities	10,893,197	-	-	10,893,197
Net Assets				
With donor restrictions	2,824,161	-	-	2,824,161
Without donor restrictions	28,723,297	-	-	28,723,297
Total Net Assets	31,547,458	-	-	31,547,458
Total Liabilities and Net Assets	$ 42,440,655	$ -	$ -	$ 42,440,655

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

December 31, 2021	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Elimination	Total
Assets				
Cash	$ 1,675,884	$ 12,677	$ -	$ 1,688,561
Investments	14,167,780	-	-	14,167,780
Contributions receivable, net	644,513	-	-	644,513
Due from related parties	216,292	-		216,292
Pledges receivable, net	1,280,121	-	-	1,280,121
Inventory	26,940	-	-	26,940
Prepaids	210,916	295	-	211,211
Total Current Assets	18,222,446	12,972	-	18,235,418
Pledges receivable long term, net	1,408,852	-	-	1,408,852
Property and equipment	19,898,293	-	-	19,898,293
Total Assets	$ 39,529,591	$ 12,972	$ -	$ 39,542,563
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$ 1,635,305	$ 10,337	$ -	$ 1,645,642
Total Current Liabilities	1,635,305	10,337	-	1,645,642
Net Assets				
With donor restrictions	4,662,484	-	-	4,662,484
Without donor restrictions	33,231,802	2,635	-	33,234,437
Total Net Assets	37,894,286	2,635	-	37,896,921
Total Liabilities and Net Assets	$ 39,529,591	$ 12,972	$ -	$ 39,542,563

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

Year ended December 31, 2022	K9s For Warriors, Inc. Without donor restrictions	K9s For Warriors, Inc. With donor restrictions	K9s For Warriors, Inc. Total	K9s For Warriors Research Institute, Inc. Without Donor Restrictions	Total
Revenue and Support					
Contributions	$ 16,371,839	$ 1,825,355	$ 18,197,194		$ 18,197,194
Contributions in-kind	2,257,579		2,257,579	-	2,257,579
Grants	1,248,388		1,248,388	-	1,248,388
Interest and investment income	254,722		254,722		254,722
Loss on extinguishment of debt	(205,084)		(205,084)		(205,084)
Miscellaneous income	29,438		29,438	-	29,438
Net change in unrealized gain/(loss) on investments	(2,192,425)		(2,192,425)	-	(2,192,425)
Assets released from restriction	3,663,678	(3,663,678)	-	-	-
Total Revenue and Support	21,428,135	(1,838,323)	19,589,812	-	19,589,812
Expenses					
Program services	20,581,761	-	20,581,761	-	20,581,761
Management and general	2,027,939	-	2,027,939	2,635	2,030,574
Fundraising	3,326,946	-	3,326,946		3,326,946
Total Expenses	25,936,646	-	25,936,646	2,635	25,939,281
Change in net assets	(4,508,511)	(1,838,323)	(6,346,834)	(2,635)	(6,349,469)
Net assets, beginning of year	33,231,808	4,662,484	37,894,292	2,635	37,896,927
Net assets, end of year	$ 28,723,297	$ 2,824,161	$ 31,547,458	$ -	$ 31,547,458

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

	K9s For Warriors, Inc.			K9s For Warriors Research Institute, Inc.	
Year ended December 31, 2021	Without donor restrictions	With donor restrictions	Total	Without Donor Restrictions	Total
Revenue and Support					
Contributions	$ 14,073,569	$ 1,993,746	$ 16,067,315	$ 195	$ 16,067,510
Contributions in-kind	1,673,616	-	1,673,616	-	1,673,616
Grants	1,386,114	-	1,386,114	-	1,386,114
Interest and investment income	213,335	-	213,335	18	213,353
Miscellaneous income	20,581	-	20,581	-	20,581
Gain on extinguishment of debt	906,897	-	906,897	-	906,897
Net change in unrealized gain/(loss) on investments	1,132,050	-	1,132,050	-	1,132,050
Assets released from restriction	1,509,118	(1,509,118)	-	-	-
Total Revenue and Support	20,915,280	484,628	21,399,908	213	21,400,121
Expenses					
Program services	9,658,126	-	9,658,126	-	9,658,126
Management and general	1,169,047	-	1,169,047	655,571	1,824,618
Fundraising	1,931,160	-	1,931,160	-	1,931,160
Total Expenses	12,758,333	-	12,758,333	655,571	13,413,904
Change in net assets	8,156,947	484,628	8,641,575	(655,358)	7,986,217
Nonoperating costs	(2,197,965)	-	(2,197,965)	2,197,965	-
Net assets, beginning of year	27,272,820	4,177,856	31,450,676	(1,539,972)	29,910,704
Net assets, end of year	$ 33,231,802	$ 4,662,484	$ 37,894,286	$ 2,635	$ 37,896,921

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

Year ended December 31, 2022	K9s For Warriors, Inc.				K9s For Warriors Research Institute, Inc.	
	Program Services	Fundraising	Management and General	Total	Management and General	Total
Personnel Costs						
Salaries	$ 8,440,549	$ 959,672	$ 301,252	$ 9,701,473	$ -	$ 9,701,473
Employee fringe benefits	1,006,326	66,286	25,865	1,098,477	-	1,098,477
Payroll taxes	639,791	73,091	20,967	733,849	-	733,849
Total Personnel Costs	10,086,666	1,099,049	348,084	11,533,799	-	11,533,799
Professional services	420,356	149,715	811,155	1,381,226	506	1,381,732
Business travel	276,800	111,739	115,038	503,577	-	503,577
Depreciation	659,284	49,003	98,005	806,292	-	806,292
Warrior house expense	173,762	-	-	173,762	-	173,762
Insurance	182,523	-	25,082	207,605	-	207,605
Service canines expense	3,814,801	-	-	3,814,801	-	3,814,801
Warrior expense	286,088	170	1,431	287,689	-	287,689
Operating supplies & expenses	4,681,481	1,917,270	629,144	7,227,895	2,129	7,230,024
Total Non-Personnel	10,495,095	2,227,897	1,679,855	14,402,847	2,635	14,405,482
Total Expenses	$ 20,581,761	$ 3,326,946	$ 2,027,939	$ 25,936,646	$ 2,635	$ 25,939,281

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

Year ended December 31, 2021	K9s For Warriors, Inc. Program Services	K9s For Warriors, Inc. Fundraising	K9s For Warriors, Inc. Management and General	K9s For Warriors, Inc. Total	K9s For Warriors Research Institute, Inc. Management and General	Total
Personnel Costs						
Salaries	$ 4,789,664	$ 520,953	$ 180,264	$ 5,490,881	$ 328,325	$ 5,819,206
Employee fringe benefits	517,901	59,418	28,804	606,123	29,074	635,197
Payroll taxes	332,965	38,239	11,046	382,250	20,788	403,038
Total Personnel Costs	5,640,530	618,610	220,114	6,479,254	378,187	6,857,441
Professional services	135,752	47,510	514,291	697,553	263,435	960,988
Business travel	146,498	48,212	42,193	236,903	1,736	238,639
Depreciation	350,060	14,844	43,294	408,198	-	408,198
Insurance	141,028	-	24,856	165,884	-	165,884
Service canines expense	790,501	492	-	790,993	200	791,193
Warrior expense	202,134	-	-	202,134	620	202,754
Operating supplies & expenses	2,251,623	1,201,492	324,299	3,777,414	11,393	3,788,807
Total Non-Personnel	4,017,596	1,312,550	948,933	6,279,079	277,384	6,556,463
Total Expenses	$ 9,658,126	$ 1,931,160	$ 1,169,047	$ 12,758,333	$ 655,571	$ 13,413,904

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

Year ended December 31, 2022	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Eliminating Entries	Total
Cash flows from operating activities:				
Change in net assets	$ (6,346,834)	$ (2,635)	$ -	$ (6,349,469)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realizedand unrealized loss on investments	2,214,327	-	-	2,214,327
Depreciation	754,969	-	-	754,969
Change in right of use asset	(176,963)	-	-	(176,963)
Donated securities	(614,214)	-	-	(614,214)
House gifted to warrior	173,762	-	-	173,762
Loss on sale of fixed asset	51,323	-	-	51,323
In kind contribution	(198,390)	-	-	(198,390)
Net change in:				
Contributions receivable	568,153	-	-	568,153
Pledges receivable, net	1,184,405	-	-	1,184,405
Inventory	26,940	-	-	26,940
Prepaid expense	(16,120)	295	-	(15,825)
Due from related party	216,292	-	-	216,292
Operating lease liability	176,963	-	-	176,963
Accounts payable and accrued expenses	220,384	(10,337)	-	210,047
Net cash provided by (used in) operating activities	(1,765,003)	(12,677)	-	(1,777,680)
Cash flows from investing activities:				
Capital expenditures	(5,742,304)	-	-	(5,742,304)
Proceeds from sale of fixed assets	13,676	-	-	13,676
Purchase of investments	(3,309,132)	-	-	(3,309,132)
Proceeds from sale of investments	5,109,579	-	-	5,109,579
Net cash used in investing activities	(3,928,181)	-	-	(3,928,181)
Cash flows from financing activities:				
Net advances on line of credit	8,000,000	-	-	8,000,000
Payments on long term debt	(26,948)	-	-	(26,948)
Net cash used in financing activities	7,973,052	-	-	7,973,052
Net change in cash	2,279,868	(12,677)	-	2,267,191
Cash at beginning of year	1,675,884	12,677	-	1,688,561
Cash at end of year	$ 3,955,752	$ -	$ -	$ 3,955,752
Supplemental disclosures of cash flow information:				
Building financed with debt	$ 887,500	$ -	$ -	$ 887,500

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

Year ended December 31, 2021	K9s For Warriors, Inc.	K9s For Warriors Research Institute, Inc.	Eliminating Entries	Total
Cash flows from operating activities:				
Change in net assets	$ 6,443,610	$ 1,542,607	$ -	$ 7,986,217
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized gain on investments	(1,119,350)	-	-	(1,119,350)
Depreciation	408,196	-	-	408,196
Gain on extinguishment of debt	(906,897)	-	-	(906,897)
In kind contribution	(183,200)			(183,200)
Net change in:				
Contributions receivable	(617,779)	-	-	(617,779)
Pledges receivable, net	(453,109)	-	-	(453,109)
Inventory	17,974	-	-	17,974
Prepaid expense	(89,744)	(295)	-	(90,039)
Due to related party	(65,190)	-	-	(65,190)
Due from related party	1,548,100	(1,559,308)	-	(11,208)
Deferred revenue	(387,724)	-	-	(387,724)
Accounts payable and accrued expenses	1,212,426	(6,512)	-	1,205,914
Net cash provided by (used in) operating activities	5,807,313	(23,508)	-	5,783,805
Cash flows from investing activities:				
Capital expenditures	(8,638,570)	-	-	(8,638,570)
Purchase of investments	(2,703,596)	-	-	(2,703,596)
Proceeds from sale of investments	2,343,243	-	-	2,343,243
Net cash used in investing activities	(8,998,923)	-	-	(8,998,923)
Net change in cash	(3,191,610)	(23,508)	-	(3,215,118)
Cash at beginning of year	4,867,494	36,185	-	4,903,679
Cash at end of year	$ 1,675,884	$ 12,677	$ -	$ 1,688,561

The accompanying notes are an integral part of these 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 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.

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

Cash includes all cash balances and highly liquid investments with an original maturity of 30 days or less.

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, 2022 and 2021 there was no allowance for uncollectible revenues.

Investments

Investments are reported at their estimated fair values in the consolidated statements of financial position as described in Note 3. 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 $84,531 and $89,906 are included in the consolidated statement of functional expenses for the years ended December 31, 2022 and 2021, respectively.

Leases

Right of use lease assets are recognized upon lease commencement and represent the Organization's right to use an underlying asset for the lease term. Lease liabilities represent the obligation to make lease payments resulting from the lease agreement and are recognized at commencement date based on the present value of lease payments over the lease term. The Organization does not record a right of use asset or lease liability to leases which (a) have a lease term of 12 months or less and (b) do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. The Organization has elected not to separate lease components from nonlease components and to account for each separate lease component and the nonlease components associated with that lease component as a single lease component. The Organization has also elected to determine the discount rate by using the United States Department of the Treasury risk-free discount rate for a period that is comparable to the lease term.

2. Summary of Significant Accounting Policies (Continued):

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.

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

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were approximately $30,724 and $42,191 for the years ended December 31, 2022 and 2021, respectively.

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.

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. K9S typically recognizes contributed services related to project construction, repairs and maintenance, and information technology. There were contributed services for professional services totaling $703,369 and $770,164 during the years ended December 31, 2022 and 2021, 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. Depreciation expense is allocated based on the usage of property and equipment.

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, 2022 and 2021, 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, 2022, the Organization was no longer subject to U.S. federal, state or local income tax examinations by taxing authorities for years before 2019. As of and for the year ended December 31, 2022, 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.

2. Summary of Significant Accounting Policies (Continued):

Recent Accounting Pronouncements – Adopted

The Organization adopted ASU No. 2016-02 Leases (Topic 842) as of January 1, 2022, requiring lessees to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. The Organization adopted the standard using the modified retrospective approach, applying standard at the adoption date.

Upon adoption, the Organization applied a package of practical expedients to all leases as permitted within the new standard which allowed the Organization to (a) not reassess existing contracts to determine if they contained a lease or if initial direct costs qualified for capitalization, (b) to carry forward all historical lease classifications and (c) to not reassess initial direct costs for any existing leases. The Organization did not elect the hindsight practical expedient when determining the lease term for existing leases. The Organization elected not to apply the standard to leases which have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise.

The adoption of the new standard resulted in the initial recording operating lease right of use assets and related lease liabilities of $276,648 as of January 1, 2022. The standard had no effect on the results of operations.

3. 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.

3. Fair Value Measurements (Continued):

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)

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

December 31, 2022	Cash and cash equivalents	Level 1	Level 2	Total
Corporate bonds	$ -	$ -	$ 1,232,650	$ 1,232,650
Municipal bonds	-	-	534,451	534,451
Mutual funds:				
Domestic equity	-	3,872,504	-	3,872,504
Fixed Income	-	1,326,966	-	1,326,966
International equity	-	1,674,775	-	1,674,775
Infrastructure	-	235,305	-	235,305
Reit	-	-	-	-
Money market funds	714,043	-	-	714,043
US Treasury Bonds and Notes	-	1,176,526	-	1,176,526
Total	$ 714,043	$ 8,286,076	$ 1,767,101	$ 10,767,220

December 31, 2021	Cash and cash equivalents	Level 1	Level 2	Total
Corporate bonds	$ -	$ -	$ 1,298,806	$ 1,298,806
Municipal bonds	-	-	551,895	551,895
Mutual funds:				
Domestic equity	-	5,090,905	-	5,090,905
Fixed Income	-	1,599,129	-	1,599,129
International equity	-	2,096,288	-	2,096,288
Infrastructure	-	131,274	-	131,274
Reit	-	254,725	-	254,725
Money market funds	2,240,011	-	-	2,240,011
US Treasury Bonds and Notes	-	904,747	-	904,747
Total	$ 2,240,011	$ 10,077,068	$ 1,850,701	$ 14,167,780

4. Pledges Receivable:

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

December 31,		2022		2021
Receivable in less than one year	$	1,145,000	$	1,280,121
Receivable between one to five years		370,355		1,460,000
		1,515,355		2,740,121
Less allowances and discounts (5% to 8%)		(10,787)		(51,148)
Net pledges receivable	$	1,504,568	$	2,688,973

5. Property and Equipment:

Property and Equipment consisted of the following:

December 31,		2022		2021
Buildings	$	22,573,794	$	7,974,912
Work in progress		249,768		9,030,122
Land		2,824,936		2,889,936
Vehicles		1,254,470		988,333
Land improvements		878,315		736,885
Furniture and equipment		1,253,487		834,589
Total property and equipment		29,034,770		22,454,777
Less: accumulated depreciation		(3,302,014)		(2,556,484)
Property and equipment, net	$	25,732,756	$	19,898,293

Depreciation expense totaled $754,968 and $408,198 for the years ended December 31, 2022 and 2021, respectively.

6. Leases:

The Organization has an operating lease agreement for a building and the surrounding premises that is used to train service canines. The Organization includes an option to renew in its lease terms when it is reasonably certain that the option will be exercised. Significant assumptions are required to evaluate the probability of exercising renewal options. The Organization expects to renew or be able to replace its operating lease with a similar lease when it expires.

Organization's lease did not provide an implicit rate that is readily determinable and the Organization elected to use a risk-free discount rate determined using a period comparable with that of the lease term instead of its incremental borrowing rate, in determining the present value of future lease payments. The Organization determined the discount rate by using the United States Department of the Treasury risk-free discount rate.

The Organization's lease does not include an option to purchase the leased property nor does it contain residual value guarantees or restrictive financial covenants. There were no material financing leases and no material subleases during 2022.

6. Leases (Continued):

Components of operating lease cost consist of the following for the year ended December 31, 2022:

Year ended December 31,		2022
Operating lease expense	$	102,000
Short term lease expense		140,644
Total lease expense	$	242,644

Other operating lease information for the year ended December 31, 2022 is as follows:

Year ended December 31,		2022
Right of use asset obtained in exchange for new operating lease liabilties	$	276,648
Operating cash flows from operating leases	$	102,000
Weighted-average remaining lease term (years)		1.75
Weighted-average discount rate		1.04%

Maturities of operating lease liabilities at December 31, 2022 are as follows:

Years ending December 31,		
2023	$	102,000
2024		76,500
Total lease payments		178,500
Less: interest		(1,537)
Present value of lease liabilities	$	176,963

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"). On February 1, 2021, the Organization received notice of forgiveness by the U.S. Small Business Administration of the PPP loan in its entirety.

8. Lines of Credit:

The Organization entered into a line of credit with available credit up to $4 million effective June 17, 2022. The line of credit includes interest at SOFR plus 2.25% with a minimum interest rate of 2.25% and matures July 5, 2023. The line of credit requires interest payable monthly with principal due upon maturity. At December 31, 2022, the outstanding balance on the line of credit was $4 million. Borrowings on line of credit are subject to certain financial covenants.

8. Lines of Credit (Continued):

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% and matured April 5, 2023. The line of credit requires interest payable monthly with principal due upon maturity. At December 31, 2022 and 2021, the outstanding balance on the line of credit was $4 million and $0, respectively.

9. Debt:

The Organization entered into a note payable for $887,500 on May 10, 2022 for the purchase of a building. The note is due May 2025 with monthly payments of principal plus interest payable of $6,152 and a balloon payment of the remaining balance due at maturity. The note payable bears interest at 2.99% and is secured by real property.

Future minimum payments are as follows:

Year ended December 31,		
2023	$	48,783
2024		50,263
2025		761,506
	$	860,552

10. Contributions In-Kind:

The Organization received the following non-cash contributions:

Years ended December 31,		2022		2021
Goods and services	$	1,443,430	$	1,263,052
Stock donations		614,214		221,467
Gift cards		1,545		5,897
Building		198,390		183,200
Total in-kind contributions	$	2,257,579	$	1,673,616

11. 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:

December 31,		2022		2021
Pledges receivable	$	1,515,355	$	2,740,121
Dog sponsorships		1,276,306		1,889,863
Miscellaneous equipment		32,500		32,500
Total net assets with donor restrictions	$	2,824,161	$	4,662,484

11. Net Assets (Continued):

Net assets were released from restrictions as follows:

Years ended December 31,		2022		2021
Pledges collected	$	1,735,121	$	730,000
Dogs sponsored		1,928,557		779,118
Total released	$	3,663,678	$	1,509,118

Net assets without donor restrictions

At December 31, 2022 and 2021, all unrestricted net assets are undesignated as to their use.

12. Liquidity and Availability of Resources:

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

December 31,		2022		2021
Financial assets:				
Investments	$	10,767,220	$	14,167,780
Cash		3,955,752		1,688,561
Contributions receivable		76,360		644,513
Pledges receivable		1,145,000		1,280,121
Due from related party		-		216,292
Total financial assets available within one year	$	15,944,332	$	17,997,267

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

13. Related Party Transactions:

During the year ended December 31, 2021, K9RI ceased operations and began the process to dissolve K9RI. As a result, K9s recorded a loss on extinguishment of debt of approximately $2.2 million for the balance of the K9RI receivable and K9RI recorded the associated gain. The gain and loss are included in nonoperating costs on the consolidated statement of activities for the year ended December 31, 2021.

American Service Dog Access Coalition ("ASDAC") is a related party to K9s through an economic interest. During 2022, the Organization determined the entire balance of the receivable due from ASDAC would not be collected and wrote off $205,084. As of December 31, 2021, ASDAC owed K9s $205,084 for start-up and operating costs paid by K9s. As of December 31, 2021, K9s owed ASDAC $65,190 for outstanding pledges.

13. Related Party Transactions (Continued):

During 2022 and 2021, K9s made contributions of $150,000 and $75,000 to ASDAC. This contribution expense is included in operating supplies and expenses. During 2022, K9s paid $32,500 to Overbrook Ventures, LLC, a vendor of the Organization, owned by the former CEO of K9s for consulting to the Board.

14. 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, 2022 and 2021 was $196,110 and $126,630, respectively.

15. 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, 2022 and 2021, the Organization had approximately $2.6 million and $882,000 in excess of FDIC insured limits. The Organization does not believe it is exposed to any significant credit risks on these deposits, respectively.

16. 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.

Operating Leases

The following discussion relates to the Organization's lease accounting policy under ASC Topic 840 for the year ended December 31, 2021.

The Organization has operating leases related to various pieces of equipment. Operating lease rent payments totaled $17,562 in 2021. The leases have start dates beginning October 2015 and maturing in July 2025. There are no escalating payment terms.

16. Commitments and Contingencies (Continued):

The following table represents the future minimum payment on leases as of December 31, 2021:

Year ended December 31,		
2022		13,011
2023		13,011
2024		13,011
2025		7,292
Total minimum lease payments	$	46,325

17. Subsequent Events:

On January 27, 2023, the Organization executed a $10 million line of credit agreement and a $1 million non-revolving draw down term loan “Equipment Loan” with a financial institution. As a result, all existing lines of credit and debt were paid in full. Under the terms of the new line of credit agreement, interest is payable monthly bearing interest at SOFR plus 1.75% and matures January 27, 2024. The outstanding principal and interest balance is payable upon maturity. Under the terms of the Equipment Loan, advances may be made on the loan to purchase equipment commencing upon the execution of the agreement through January 27, 2024, with the outstanding balance converting to a term loan effective January 27, 2024. Interest only is payable monthly on outstanding principal balance monthly commencing February 15, 2023. Beginning February 15, 2024, principal and interest payments are payable monthly maturing January 27, 2029. The Equipment Loan bears interest at SOFR plus 1.75% through January 27, 2024, then converting to a fixed rate equal to FHLB rate plus 2.50%.

Events occurring after December 31, 2022, the date of the most recent consolidated financial statements, have been evaluated for possible adjustments to the consolidated financial statements or disclosures through June 6, 2023, 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.