

K9S For Warriors, Inc.

(A Not-For-Profit Corporation)

Audited Financial Statements

Years Ended December 31, 2017 & 2016

K9S For Warriors, Inc.

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December 31, 2017 and 2016

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Robert M. Thaggard, *Certified Public Accountant*

Independent Auditor's Report

To the Board of Directors
K9S For Warriors, Inc.
Ponte Vedra, Florida

I have audited the accompanying financial statements of K9S For Warriors, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of K9S For Warriors, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Robert M. Thaggard, CPA
June 28, 2018

K9S For Warriors, Inc.

Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,315,523	\$ 5,478,030
Pledges receivable-net of allowance for uncollectible accounts of \$69,734 at December 31, 2017	988,475	10,791
Other receivables	229,722	213,563
Prepaid expenses	363,937	229,215
Inventory	249,920	-
Total Current Assets	<u>8,147,577</u>	<u>5,931,599</u>
Investments	<u>5,653,819</u>	<u>2,943,483</u>
Property, Equipment and Canines, net of accumulated depreciation	<u>9,999,278</u>	<u>9,243,066</u>
Total Assets	<u>\$ 23,800,674</u>	<u>\$ 18,118,148</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 330,323	\$ 317,170
Current portion of capital lease payable	47,735	44,264
Total Current Liabilities	<u>378,058</u>	<u>361,434</u>
Capital Lease Payable-long term portion	<u>49,754</u>	<u>101,935</u>
Total Liabilities	<u>427,812</u>	<u>463,369</u>
Net Assets		
Unrestricted net assets	18,451,929	12,325,341
Temporarily restricted net assets	547,279	955,784
Permanently restricted net assets	4,373,654	4,373,654
Total Net Assets	<u>23,372,862</u>	<u>17,654,779</u>
Total Liabilities and Net Assets	<u>\$ 23,800,674</u>	<u>\$ 18,118,148</u>

K9S For Warriors, Inc.

Statements of Activities

Years Ended December 31, 2017 and 2016

2017	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes In Net Assets				
Support and Revenues:				
Contributions	\$ 8,205,038	\$ 893,910	\$ -	\$ 9,098,948
In-kind contributions	519,821	-	-	519,821
Investment income	258,713	-	-	258,713
Miscellaneous Income	279,480	-	-	279,480
Total Support and Revenues	<u>9,263,052</u>	<u>893,910</u>	<u>-</u>	<u>10,156,962</u>
Expenses:				
Program services	5,421,036	-	-	5,421,036
Support services:				
Management and general	300,370	-	-	300,370
Fundraising	1,032,956	-	-	1,032,956
Subtotal	<u>6,754,362</u>	<u>-</u>	<u>-</u>	<u>6,754,362</u>
Capitalization of Canines Placed in Service	<u>(2,315,483)</u>	<u>-</u>	<u>-</u>	<u>(2,315,483)</u>
Net Expenses	<u>4,438,879</u>	<u>-</u>	<u>-</u>	<u>4,438,879</u>
Change in Net Assets	4,824,173	893,910	-	5,718,083
Net assets, at beginning of year	12,325,341	955,784	4,373,654	17,654,779
Reclassifications from Restricted to Unrestricted	<u>1,302,415</u>	<u>(1,302,415)</u>	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 18,451,929</u>	<u>\$ 547,279</u>	<u>\$ 4,373,654</u>	<u>\$ 23,372,862</u>
2016	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes In Net Assets				
Support and Revenues:				
Contributions	\$ 6,227,668	\$ 955,784	\$ -	\$ 7,183,452
In-kind contributions	121,018	-	2,120,000	2,241,018
Special Events-Net	12,607	-	-	12,607
Investment income	35,378	-	-	35,378
Miscellaneous Income	10,410	-	-	10,410
Other income	28,187	-	-	28,187
Total Support and Revenues	<u>6,435,268</u>	<u>955,784</u>	<u>2,120,000</u>	<u>9,511,052</u>
Expenses:				
Program services	3,884,518	-	-	3,884,518
Support services:				
Management and general	214,391	-	-	214,391
Fundraising	509,835	-	-	509,835
Subtotal	<u>4,608,743</u>	<u>-</u>	<u>-</u>	<u>4,608,743</u>
Capitalization of Canines Placed in Service	<u>(1,565,053)</u>	<u>-</u>	<u>-</u>	<u>(1,565,053)</u>
Net Expenses	<u>3,043,690</u>	<u>-</u>	<u>-</u>	<u>3,043,690</u>
Change in Net Assets	3,391,578	955,784	2,120,000	6,467,362
Net assets, at beginning of year	8,520,263	413,500	2,253,654	11,187,417
Reclassifications from Restricted to Unrestricted	<u>413,500</u>	<u>(413,500)</u>	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 12,325,341</u>	<u>\$ 955,784</u>	<u>\$ 4,373,654</u>	<u>\$ 17,654,779</u>

K9's For Warriors, Inc.

Statements of Functional Expenses

Years Ended December 31, 2017 and 2016

2017	Support Services			Total
	Programs	Management and General	Fundraising	
Salaries and benefits	\$ 1,542,874	\$ 480,618	\$ 233,531	\$ 2,257,023
Employee benefits	212,080	73,027	24,731	309,838
Payroll taxes	117,366	35,805	18,554	171,725
Accounting and auditing	-	103,222	-	103,222
Investment advisory fees	-	52,317	-	52,317
Other Professional services	11,695	275,466	136,430	423,591
Advertising	78,024	2,409	25,952	106,385
Office expenses	113,336	78,344	128,698	320,378
Information technology	132,606	44,193	19,678	196,477
Facility and occupancy	301,911	16,323	8,227	326,461
Travel - business	47,171	25,587	7,108	79,866
Depreciation	1,256,331	8,794	6,005	1,271,130
Insurance	78,444	6,641	5,181	90,266
Service canines expense	547,600	500	1,063	549,163
Warriors expenses	182,959	95	1,100	184,154
Fund raising event expense	13,490	13,060	82,813	109,363
Other expenses	44,762	31,545	126,696	203,003
Indirect cost allocations	740,387	(947,576)	207,189	-
Total Functional Expenses	\$ 5,421,036	\$ 300,370	\$ 1,032,956	\$ 6,754,362

2016	Support Services			Total
	Programs	Management and General	Fundraising	
Salaries and benefits	\$ 1,440,233	\$ 170,707	\$ 306,222	\$ 1,917,162
Employee benefits	111,826	20,093	5,053	136,972
Payroll taxes	107,460	14,214	19,151	140,824
Accounting and auditing	15,687	15,960	3,414	35,060
Investment advisory fees	-	2,429	-	2,429
Other Professional services	151,201	34,450	30,738	216,388
Advertising	92,333	511	12,228	105,072
Office expenses	151,878	37,515	100,053	289,446
Information technology	103,967	8,648	24,257	136,872
Facility and occupancy	178,672	-	215	178,887
Travel - business	54,925	20,078	20,868	95,871
Depreciation	917,631	-	-	917,631
Insurance	58,646	5,198	3,890	67,734
Warriors & service canines expenses	279,297	2,599	1,385	283,280
Fund raising event expense	9,358	15	5,069	14,442
Other expenses	47,721	18,747	4,204	70,673
Indirect cost allocations	163,685	(136,773)	(26,912)	-
Total Functional Expenses	\$ 3,884,518	\$ 214,391	\$ 509,835	\$ 4,608,743

K9S For Warriors, Inc.

Statements of Cash Flow

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 5,718,083	\$ 6,467,362
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,313,118	936,739
Gain on disposal of property	(162,198)	-
Net unrealized (gain) loss on investments	(139,890)	(35,378)
In-kind contributions support and revenues	(519,821)	(2,241,018)
In-kind service canines and gift expenditures	368,532	(1,565,053)
(Increase) decrease in other receivables	(16,159)	(213,563)
(Increase) decrease in pledges receivable	(977,684)	(6,291)
(Increase) decrease in prepaid expenses	(134,722)	(165,389)
(Increase) decrease in inventory	(249,920)	-
Increase (decrease) in accounts payable	13,153	235,844
Total adjustments	<u>(505,591)</u>	<u>(3,054,109)</u>
Net cash provided by (used in) operating activities	<u>5,212,492</u>	<u>3,413,253</u>
Cash Flows from Financing Activities		
Principal payments on capital lease	(48,710)	(6,735)
Advances under capital leases	-	143,286
Net cash provided by (used in) capital and related financing activities	<u>(48,710)</u>	<u>136,551</u>
Cash Flows from Investing Activities		
Proceeds from sale of property	534,121	-
Purchase of property and equipment	(2,368,743)	(669,547)
Purchase of investments	<u>(2,491,667)</u>	<u>(2,077,038)</u>
Net cash used in investing activities	<u>(4,326,289)</u>	<u>(2,746,585)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	837,493	803,219
Cash and Cash Equivalents at Beginning of Period	<u>5,478,030</u>	<u>4,674,811</u>
Cash and Cash Equivalents at End of Period	<u>\$ 6,315,523</u>	<u>\$ 5,478,030</u>
Supplemental Disclosures		
Interest paid	<u>\$ -</u>	<u>\$ 837</u>

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 1 - Nature of Activities

K9S for Warriors (the Organization) is a not-for-profit organization (incorporated) founded in 2011, committed to providing service canines to United States veterans suffering from Post-Traumatic Stress Disability, traumatic brain injury, and/or military sexual trauma as a result of post-September 11, 2001 military service. K9S for Warriors 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are presented on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation - Financial statement presentation follows the Not-for-Profit topics of the Financial Accounting Standards Codification. As such, the Organization is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flow, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory - Inventory is stated at the lower of cost or market using the first-in, first-out method of inventory accounting.

Investments - Investment securities, which consist of equity securities, are stated at fair value. The fair value is determined by quoted market prices.

Property, Equipment and Canines - Property and equipment are stated at cost, except for donated property and equipment, which is stated at the estimated fair market value at date of receipt. Canines are considered biological assets (living animals) and are capitalized when placed in service at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is recorded on the straight-line method based on the estimated useful lives of the assets. In the opinion of management, no conditions existed during the years ended December 31, 2017 and 2016 that resulted in the material impairment of the recorded cost of canines.

Income Taxes - The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as "other than a private foundation." Therefore no provision for income taxes is reflected in the financial statements.

The Organization's information returns are subject to examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unrestricted Net Assets - Net assets representing resources generated from operations that are not subject to donor imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Contributions of services - a substantial number of unpaid volunteers have made significant contributions of their time to the Organization. The value of contributed services is reflected in the statements as part of the total in-kind contributions.

Reclassifications - Certain amounts in the December 31, 2016 financial statements have been reclassified to conform to the presentation used in the December 31, 2017 financial statements.

Note 3 - Leases

Capital Lease Agreements

On October 31, 2014, the Organization entered into a capital lease agreement with Dex Imaging for a Konica PK-520 copier for a term of 62 months. As of December 31, 2017, there were 25 payments remaining of \$196.90 each. On December 9, 2016 the Organization entered into a capital lease agreement with Wells Fargo for equipment for a term of 36 months. As of December 31, 2017 there were 23 payments remaining of \$4,239.95 each. The following is a schedule by years of future minimum rentals under the lease agreements at December 31, 2017:

Year ending December 31:	
2018	\$ 53,242
2019	49,002
2020	196
Total minimum lease payments	<u>102,440</u>
Less: amount representing interest	(4,951)
Present value of minimum lease payments	<u><u>\$ 97,489</u></u>

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 4 - Investments

Investments are managed under a diversified investment strategy. Investments are comprised of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest bearing cash/money market funds	\$ 89,548	\$ 1,684,500
Equity mutual funds	-	1,258,983
Fixed income securities	1,892,170	-
International & domestic equities	2,465,771	-
REITs, MLPs & Alternatives	772,024	-
Other	434,306	-
	<u>\$ 5,653,819</u>	<u>\$ 2,943,483</u>

Note 5 - Fair Value Measurements

Professional accounting standards establishes a framework for measuring fair value. That framework 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 the 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 are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan 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
- 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.

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 5 - Fair Value Measurements (Continued)

Investments, at fair market value, as of December 31, 2017 and 2016, were comprised of Level 1 measurements as follows:

	<u>2017</u>	<u>2016</u>
Interest bearing cash/money market funds	\$ 89,548	\$ 1,684,500
Equity mutual funds	-	1,258,983
Fixed income securities	1,892,170	-
International & domestic equities	2,465,771	-
REITs, MLPs & Alternatives	772,024	-
	<u>\$ 5,219,513</u>	<u>\$ 2,943,483</u>

For the years ended December 31, 2017 and 2016, investment returns consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 118,204	\$ 30,883
Realized/unrealized gains (losses)	140,509	4,495
Total	<u>\$ 258,713</u>	<u>\$ 35,378</u>

Note 6 - Property and Equipment

The Organization held the following fixed and biological assets as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Construction in progress	\$ 155,092	\$ -
Land	1,118,107	1,320,324
Land improvements	703,203	687,992
Buildings	4,263,435	4,429,782
Furniture and equipment	355,894	350,404
Vehicles	464,088	339,778
Canines	6,430,533	4,304,053
Total property and equipment	<u>13,490,352</u>	<u>11,432,333</u>
Less: Accumulated depreciation	<u>(3,491,074)</u>	<u>(2,189,267)</u>
	<u>\$ 9,999,278</u>	<u>\$ 9,243,066</u>

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 7 - Contributions In-Kind

During the years ended December 31, 2017 and 2016, the Organization received the following non-cash contributions:

	<u>2017</u>	<u>2016</u>
Land	\$ -	\$ 441,107
Buildings	-	1,288,393
Building improvements	-	390,500
Stock Donations	71,167	18,959
Tractors, Loader and attachments	70,700	-
Canine materials & supplies	337,891	37,671
Warriors materials & supplies	1,889	55,060
Volunteer services	38,174	9,328
Total in-kind contributions	<u>\$ 519,821</u>	<u>\$ 2,241,018</u>

Note 8 - Functional Allocation of Expenses

The cost of providing various program and supporting services has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited based on how employees spent their time and purpose of services.

Note 9 - Concentration of Credit Risk

K9S for Warriors, Inc. has bank accounts at Wells Fargo and EverBank. At December 31, 2017 and 2016, balances at both Wells Fargo and EverBank exceed the \$250,000 FDIC insured limits by \$5,510,050 and \$4,754,307, respectively.

Note 10 - Temporarily & Permanently Restricted Net Assets

As of December 31, 2017, temporarily restricted net assets consisted of the following:

Telethon Contributions for Capital Improvements	\$ 473,859
Contributions for Warrior Training	25,000
Contributions for Education Development & Facilities	48,420
Total Temporarily Restricted Net Assets	<u>\$ 547,279</u>

As of December 31, 2017, permanently restricted net assets consisted of donated facilities totaling \$4,373,654.

Note 11 - Legal Matters

As of December 31, 2017, K9S for Warriors has no significant pending lawsuits underway whereby the Organization is a defendant.

K9S For Warriors, Inc.
Notes to the Financial Statements
Years Ended December 31, 2017 and 2016

Note 12 - Subsequent Events

Management has evaluated subsequent events through June 28, 2018, which is the date the financial statements were available to be issued. In the opinion of management, no events occurred subsequent to December 31, 2017 through June 28, 2018 that require adjustment to or disclosure in the accompanying financial statements.