

Project K-9 Hero

Audited Financial Statements

For the year ended
December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Management of
Project K-9 Hero
Whitwell, TN

We have audited the accompanying financial statements of Project K-9 Hero (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project K-9 Hero as of December 31, 2022, and the changes in its net assets and its cash flows for the year 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Project K-9 Hero 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 Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Project K-9 Hero's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted 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, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit. Identify and assess the risks of material misstatement of the 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 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 Project K-9 Hero'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Project K-9 Hero'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.

Jason F. Clausen, P.C.

Fraser, MI

June 21, 2023

PROJECT K-9 HERO
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022

Assets

Current assets	
Cash and cash equivalents	\$ 607,387
Investments	143,286
Accounts receivable, net	370,238
Inventory	285,799
Prepaid expenses	106,608
Other current assets	<u>1,326</u>
Total current assets	1,514,644
Property and equipment, net	<u>842,838</u>
Total assets	<u><u>2,357,482</u></u>

Liabilities and net assets

Current liabilities	
Accounts payable and accrued expenses	180,893
Note payable - current	30,521
Accrued payroll liabilities	<u>17,335</u>
Total current liabilities	228,749
Long term liabilities	
Note payable, net of current portion	<u>212,208</u>
Total liabilities	440,957

Net assets

Net assets without donor restrictions	<u>1,916,525</u>
Total net assets	<u>1,916,525</u>
Total liabilities and net assets	<u><u>\$ 2,357,482</u></u>

See independent auditor's report and financial statements

PROJECT K-9 HERO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<u>Revenue and other support</u>			
Contributions	\$ 4,062,753	\$ -	\$ 4,062,753
Product sales (net of costs of goods sold of \$187,313)	138,839	-	138,839
Investment income	13,327	-	13,327
In-kind donations	215,940	-	215,940
Other	26,348	-	26,348
	<hr/>	<hr/>	<hr/>
Total revenue and other support	4,457,207	-	4,457,207
 <u>Expense</u>			
Program services	3,216,740	-	3,216,740
Management and general	181,898	-	181,898
Fundraising	189,050	-	189,050
	<hr/>	<hr/>	<hr/>
Total expense	3,587,688	-	3,587,688
Change in net assets	869,519	-	869,519
Net assets, beginning of period	1,047,006	-	1,047,006
	<hr/>	<hr/>	<hr/>
Net assets, end of period	\$ 1,916,525	\$ -	\$ 1,916,525

See independent auditor's report and financial statements

PROJECT K-9 HERO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>Description</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 326,182	\$ 36,242	\$ -	\$ 362,424
Payroll taxes	24,952	2,773	-	27,725
Employee benefits	87,854	9,762	-	97,616
Direct mail campaigns	1,472,841	53,821	181,778	1,708,440
Food, supplies, and veterinary services	287,631	-	-	287,631
Travel and entertainment	130,250	-	-	130,250
Advertising	267,440	-	-	267,440
Office expense	169,902	39,052	7,272	216,226
Accounting and legal	-	12,897	-	12,897
Occupancy expense	192,379	21,375	-	213,754
Gifts and donations	10,100	-	-	10,100
Depreciation	31,269	-	-	31,269
Insurance	-	5,976	-	5,976
In-kind expenses	215,940	-	-	215,940
Total expenses on the statement of activities	<u>\$ 3,216,740</u>	<u>\$ 181,898</u>	<u>\$ 189,050</u>	<u>\$ 3,587,688</u>

See independent auditor's report and financial statements

PROJECT K-9 HERO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>Cash flows from operating activities</u>	
Change in net assets	\$ 869,519
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	31,269
Contribution of marketable securities	(129,958)
Net gain on investments	(13,327)
<u>Changes in operating assets and liabilities</u>	
Increase in accounts receivable	(74,587)
Increase in inventory	(116,970)
Increase in prepaid expenses	(14,980)
Increase in other current assets	(1,326)
Decrease in accounts payable and accrued expenses	(39,062)
Increase in accrued payroll liabilities	4,045
Net cash provided by operating activities	<u>514,623</u>
<u>Cash flows from investing activities</u>	
Fixed asset purchases	<u>(140,575)</u>
Net cash used in investing activities	<u>(140,575)</u>
<u>Cash flows from financing activities</u>	
Repayments of notes payable	<u>(28,743)</u>
Net cash used in financing activities	<u>(28,743)</u>
Net increase in cash and cash equivalents	345,305
Cash and cash equivalents, beginning of period	<u>262,082</u>
Cash and cash equivalents, end of period	<u>\$ 607,387</u>
Cash paid for interest (net of amount capitalized)	<u>\$ -</u>

See independent auditor's report and financial statements

PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 – NATURE OF ORGANIZATION

Project K-9 Hero (the "Organization") is a non-profit corporation located in Whitwell, TN. The Organization's purpose is to educate the public on the costs and responsibilities of adopting a retired Police K-9s and Military Working Dogs. The Organization provides financial assistance with covering/offsetting medical and food costs, as well as the rehabilitation and rehoming for retired K-9 Heroes. The Organization is primarily supported by donations, corporate sponsors, in-kind contributions, plus the sale of branded apparel and other items.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and accordingly reflect all significant receivables, payables, and other liabilities.

Classification of Net Assets

The Organization prepares its financial statements in accordance with FASB ASC 958-205, "Financial Statements of Not-for-Profit Organizations". Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions. As permitted under the provisions of FASB 958-605, the Organization records donor-restricted contributions whose restrictions have been satisfied in the same reporting period as unrestricted support in such year.

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with maturities of three months or less when purchased are considered cash equivalents and recorded at cost, which approximates fair value. The Organization places its cash and temporary cash investments with high credit quality financial institutions, and at times may maintain balances that exceed federally insured limits. Management deems this to be an acceptable risk. At December 31, 2022 balances in excess of federally insured limits were \$312,240.

Accounts Receivable, Net

The Organization receives donations throughout the year via services of a professional fundraising company. The donations are recorded as revenue at the time of donation and the amount due from the fundraising company, net of related costs, is held as receivable until paid. As of December 31, 2022, there is no allowance for uncollectible receivables, as the Organization believes that all amounts due as of the date of this report are collectible.

Inventory

Inventories consist of apparel and other items with the Organization's branding and are recorded at cost (including any applicable shipping costs) if purchased or at the fair value at the time of donation if donated.

Current Financial Assets

The Organization has \$977,625 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$607,387 and receivables totaling \$370,238. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets on hand

See independent auditor's report and financial statements

PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to meet 60 days of normal operating expenses, which are, on average, approximately \$590,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Property and Equipment

Property and equipment are carried at cost or, if donated, at estimated fair market value at the time of the donation. Depreciation is provided on a straight-line basis over the estimated useful life of the assets. Expenditures for maintenance and repairs are charged to expense as incurred.

Donated Materials and Services

The Organization receives donations of material and services from various sources. The donated materials and services received are reflected in the accompanying financial statements at their fair market value at the time of donation.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Office expenses have been allocated, which have been allocated on the basis of management's estimate of time and effort.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2022 were \$267,440.

Income Taxes

The Organization is a private, not-for-profit organization operating in accordance with Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 3 - FAIR VALUE MEASUREMENTS

Generally Accepted Accounting principles establish 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 identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels of the fair value hierarchy under Generally Accepted Accounting Principles 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 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 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 this asset or liability.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lower 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:

Money market funds: Valued at the fair value of the fund at the close of the stock market on the last business day of the year.

Fixed income investments: Valued at the accumulated unit value of the units held at the end of the year.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments are state at their fair values, and consist of money market and fixed income investments as follows:

PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

<u>December 31, 2022</u>	<u>Fair Value</u>	<u>In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Levels 3)</u>
Money Market Funds	\$ 6,263	\$ 6,263	\$ -0-	\$ -0-
Fixed Income Investments	<u>137,023</u>	<u>137,023</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 143,286</u>	<u>\$ 143,286</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Investment income for the fiscal year ended September 30, 2022, reported as a net of realized gains and losses, dividends and interest of \$9, brokerage fees of \$223, and unrealized market fluctuations was \$13,327.

NOTE 4 - PROPERTY AND EQUIPMENT

As of December 31, 2022, property and equipment consist of:

Equipment	\$ 185,084
Vehicles	23,000
Construction in process	579,696
Office building	<u>112,337</u>
	900,117
Less: Accumulated depreciation	<u>(57,279)</u>
Net property and equipment	<u>\$ 842,838</u>

Depreciation expense was \$31,269 for the year ended December 31, 2022.

NOTE 5 - NOTE PAYABLE

Mortgage Note Payable

On August 30, 2019 the Organization entered into a note payable with an original amount of \$332,140 secured by a mortgage on real property with the personal guarantee of an officer. The note calls for 120 monthly payments of \$3,687 and bears interest at a floating rate per annum equal to 0.75% above the Wall Street Journal U.S. Prime Rate. This note matures on August 30, 2029. The balance due on this loan was \$242,729 at December 31, 2022.

Principal payments due on these notes for the next five years are as follows:

2023	\$ 30,521
2024	32,403
2025	34,402
2026	36,524
2027	38,777
Thereafter	<u>70,102</u>
TOTAL	<u>\$ 242,729</u>

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PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 6 – CAPITALIZED INTEREST

Interest costs charged to operations consist of the following:

Interest cost incurred	\$ 15,507
Decrease as a result of capitalizing interest as a cost of construction	<u>(15,507)</u>
Interest charged to operations	<u>\$ -</u>

NOTE 7 – ALLOCATION OF JOINT COSTS

In 2022, the Organization conducted activities that included requests for contributions, as well as program and management and general components. Those activities consisted of direct mail campaigns. The costs of conducting those activities included a total of \$1,708,440 of joint costs, which are not specifically attributable to particular components of the activities (joint costs). These joint costs were allocated as follows:

Fundraising	\$ 181,778
Program	1,472,841
Management and general	<u>53,821</u>
Total	<u>\$ 1,708,440</u>

NOTE 8 – ACCRUED VACATION AND SICK PAY

Employees are allowed to accumulate a portion of personal time off (PTO) time from year to year. As of December 31, 2022, the amount of liability could not be reasonably estimated. Therefore, in accordance with FASB ASC 710-10-50-1, no accrual was made.

NOTE 9 – IN-KIND DONATIONS

Donated contributions are reflected in the accompanying states at their estimated values at date of receipt.

A significant portion of the Organization's in-kind donations consist of contributed services from a single entity. These services included shipping, receiving, and warehouse fees. The fair value of these donated services received for the year ended December 31, 2022 is \$207,234.

Directors, officers, and a substantial number of volunteers have donated significant amounts of their time to develop the Organization and assist in the operation of its programs. No amounts have been recognized in the accompanying statement of activities and changes in net assets because the criteria for recognition of such efforts under GAAP have not been satisfied.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2022, the Organization did not have any net assets with donor restrictions.

PROJECT K-9 HERO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 11 – DATE OF MANAGEMENT’S REVIEW

These financial statements have been reviewed and include all pertinent information through the date of this report, which is the date the financial statements were available to be issued.