



NATIONAL DISASTER SEARCH DOG FOUNDATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2023 and 2022

NATIONAL DISASTER SEARCH DOG FOUNDATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Disaster Search Dog Foundation

Opinion

We have audited the financial statements of National Disaster Search Dog Foundation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of National Disaster Search Dog Foundation as of September 30, 2023 and 2022, 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.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Disaster Search Dog Foundation 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 National Disaster Search Dog Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' 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 auditors' 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 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 GAAS, 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 National Disaster Search Dog Foundation'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 National Disaster Search Dog Foundation'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.

Hinricher & Cousins, LLP

Thousand Oaks, California

April 11, 2024

NATIONAL DISASTER SEARCH DOG FOUNDATION

STATEMENTS OF FINANCIAL POSITION

September 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash - operations	\$ 362,535	\$ 538,529
Cash - restricted	473,975	545,470
Total cash	836,510	1,083,999
Pledges and grants receivable	752,962	787,834
Inventory	60,114	57,622
Prepaid expenses	432,235	365,088
Total current assets	2,081,821	2,294,543
Investments - board designated endowment	8,093,397	7,297,450
Investments	1,869,186	1,650,141
Construction in progress	709,662	61,190
Property and equipment, net of accumulated depreciation	21,576,419	22,215,729
Land	4,573,360	4,573,360
Intangible assets, net of accumulated amortization	58,832	75,795
Total assets	<u>\$ 38,962,677</u>	<u>\$ 38,168,208</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 623,689	\$ 491,829
Agency funds	5,052	5,052
Current portion of long-term notes payable	240,000	240,000
Total current liabilities	868,741	736,881
Long-term liabilities:		
Notes payable, net of current portion	1,145,478	1,385,478
Total long-term liabilities	1,145,478	1,385,478
Total liabilities	2,014,219	2,122,359
Net assets:		
Without donor-imposed restrictions		
Available for general operations	28,381,266	28,202,929
Board designated endowment	8,093,397	7,297,450
Total without donor-imposed restrictions	36,474,663	35,500,379
With donor-imposed restrictions		
Purpose restricted	473,795	545,470
Total with donor-imposed restrictions	473,795	545,470
Total net assets	36,948,458	36,045,849
Total liabilities and net assets	<u>\$ 38,962,677</u>	<u>\$ 38,168,208</u>

See accompanying independent auditors' report and notes to financial statements.

NATIONAL DISASTER SEARCH DOG FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support, revenue and reclassification						
Contributions	\$ 1,834,752	\$ 420,951	\$ 2,255,703	\$ 1,934,707	\$ 927,808	\$ 2,862,515
Grants	1,456,925	1,587,186	3,044,111	1,633,560	265,100	1,898,660
Planned giving income	1,081,078	0	1,081,078	2,815,839	0	2,815,839
In-kind donations	88,767	0	88,767	96,054	0	96,054
Investment income	872,105	0	872,105	(1,027,910)	0	(1,027,910)
Merchandising income	14,033	0	14,033	13,994	0	13,994
Other income	81,045	0	81,045	466,184	0	466,184
Reclassifications of net assets	(99,375)	99,375	0	0	0	0
Releases of restricted net assets	2,179,187	(2,179,187)	0	697,438	(697,438)	0
Total public support, revenue and classifications	<u>7,508,517</u>	<u>(71,675)</u>	<u>7,436,842</u>	<u>6,629,866</u>	<u>495,470</u>	<u>7,125,336</u>
Expenses						
Program services	5,056,199	0	5,056,199	4,477,314	0	4,477,314
Management & general	689,101	0	689,101	757,286	0	757,286
Fundraising	788,933	0	788,933	685,570	0	685,570
Total expenses	<u>6,534,233</u>	<u>0</u>	<u>6,534,233</u>	<u>5,920,170</u>	<u>0</u>	<u>5,920,170</u>
Change in net assets	974,284	(71,675)	902,609	709,696	495,470	1,205,166
Net assets at beginning of year	<u>35,500,379</u>	<u>545,470</u>	<u>36,045,849</u>	<u>34,790,683</u>	<u>50,000</u>	<u>34,840,683</u>
Net assets at end of year	<u>\$ 36,474,663</u>	<u>\$ 473,795</u>	<u>\$ 36,948,458</u>	<u>\$ 35,500,379</u>	<u>\$ 545,470</u>	<u>\$ 36,045,849</u>

See accompanying independent auditors' report and notes to financial statements.

NATIONAL DISASTER SEARCH DOG FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 902,609	\$ 1,205,166
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Paycheck protection program loan forgiveness	0	(423,353)
Donated stock	(83,606)	(868,755)
Depreciation and amortization	850,341	864,839
Realized (gains)/losses on investments	12,415	(79,174)
Unrealized (gains)/losses on investments	(676,560)	1,171,561
(Increase) decrease in:		
Pledges and grants receivable	34,872	(568,586)
Inventory	(2,492)	2,810
Prepaid expenses	(67,147)	(172,664)
Increase (decrease) in:		
Accounts payable and accrued expenses	131,860	105,728
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,102,292</u>	<u>1,237,572</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to construction in progress	(683,665)	(45,435)
Purchases of property and equipment	(158,874)	(806,213)
Purchase of land	0	(625,616)
Purchases of investments	(5,174,309)	(7,124,864)
Proceeds from sales of investments	4,907,067	3,500,165
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,109,781)</u>	<u>(5,101,963)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(240,000)	(240,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(240,000)</u>	<u>(240,000)</u>
Total increase (decrease) in cash and restricted cash	(247,489)	(4,104,391)
Cash and restricted cash at beginning of year	<u>1,083,999</u>	<u>5,188,390</u>
Cash and restricted cash at end of year	<u><u>\$ 836,510</u></u>	<u><u>\$ 1,083,999</u></u>

SUPPLEMENTARY INFORMATION

Interest paid	\$ 68,184	\$ 79,837
Income taxes paid	\$ 0	\$ 0
PPP forgiveness	\$ 0	\$ 423,353

See accompanying independent auditors' report and notes to financial statements.

NATIONAL DISASTER SEARCH DOG FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30, 2023 and 2022

	2023				2022			
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries and related	\$ 2,472,871	\$ 517,278	\$ 676,464	\$ 3,666,613	\$ 2,101,201	\$ 584,238	\$ 569,476	\$ 3,254,915
Accounting and legal	110	17,097	0	17,207	0	16,066	0	16,066
Auto and travel	47,147	3,243	784	51,174	16,826	2,647	296	19,769
Insurance	507,210	13,348	13,348	533,906	346,876	9,128	9,128	365,132
Repairs and maintenance	42,809	686	686	44,181	53,055	1,056	1,056	55,167
Supplies	19,562	3,016	734	23,312	31,965	7,389	1,996	41,350
Utilities	70,427	1,323	1,323	73,073	69,475	1,547	1,547	72,569
Telephone	20,789	6,422	1,543	28,754	8,663	3,757	869	13,289
Computer	67,577	29,832	9,920	107,329	75,533	49,047	9,719	134,299
Outreach/Marketing	97,150	5,669	17,252	120,071	62,387	1,185	16,469	80,041
Office and employee costs	58,950	36,459	1,425	96,834	75,247	19,594	16,513	111,354
Shipping and postage	3,198	2,398	3,104	8,700	3,971	2,972	2,983	9,926
Interest	64,774	1,705	1,705	68,184	75,845	3,992	0	79,837
Training sites	14,422	0	0	14,422	0	0	0	0
Team training and handler expenses	418,768	0	619	419,387	359,388	0	0	359,388
Equipment rental	4,928	2,349	1,536	8,813	5,430	2,885	1,437	9,752
Taxes and license	16,875	465	444	17,784	7,287	192	192	7,671
Canine recruiting and training	207,120	0	0	207,120	241,220	0	0	241,220
Lifetime care program	17,330	0	0	17,330	21,677	0	0	21,677
Events	3,935	0	20,112	24,047	501	5,391	6,878	12,770
In-kind program expenses	88,767	0	0	88,767	96,054	0	0	96,054
Fundraising and stewardship expenses	3,657	3,829	16,675	24,161	3,116	4,772	25,390	33,278
Merchant fees and discounts	0	22,723	0	22,723	0	19,807	0	19,807
Total operating expenses before depreciation & amortization	4,248,376	667,842	767,674	5,683,892	3,655,717	735,665	663,949	5,055,331
Depreciation & amortization	807,823	21,259	21,259	850,341	821,597	21,621	21,621	864,839
Total expenses	<u>\$ 5,056,199</u>	<u>\$ 689,101</u>	<u>\$ 788,933</u>	<u>\$ 6,534,233</u>	<u>\$ 4,477,314</u>	<u>\$ 757,286</u>	<u>\$ 685,570</u>	<u>\$ 5,920,170</u>

See accompanying independent auditors' report and notes to financial statements.

NATIONAL DISASTER SEARCH DOG FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended September 30, 2023 and 2022

NOTE 1 - NATURE OF ORGANIZATION

National Disaster Search Dog Foundation (the "Foundation"), a not-for-profit corporation located in Santa Paula, California, was formed under the general non-profit corporation laws of the State of California to produce the most highly trained canine disaster search teams in the nation. The Foundation accomplishes its mission by providing education, training and guidance to their dogs and handlers. Funding comes from contributions, grants, and program revenue from community members, corporations and foundations. Funds are also raised through fundraisers and special events.

The Foundation maintains a board designated endowment fund (the "Fund") (See Note 10). The Fund's long-term goal is to provide at minimum 25% of annual operating needs. The Foundation's intent is to always have six months of capital reserves with the awareness that the Endowment Fund is available as needed in order to provide uninterrupted services due to a temporary drop in gift income. There is no external restriction on the Endowment Fund balance. All restrictions related to this fund are set internally by the Foundation's management and board of directors. For purposes of footnote 5 the Fund and investments are presented in total.

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 ("GAAP") for not-for-profit organizations.

Net Asset Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor-imposed restrictions are those currently available at the discretion of management and the governing board for use in operations. Net assets subject to donor-imposed restrictions are those which are stipulated by donors for specific purposes or by passage of time and may include net assets to be held in perpetuity.

Revenues are reported as increases in net assets without donor-imposed restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor-imposed restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NATIONAL DISASTER SEARCH DOG FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended September 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions are considered to be available for general purposes unless restricted by a donor for specific purposes. Resources received in exchange transactions are recognized as deferred revenues to the extent that the earnings process has not been completed. These resources are recorded as revenues without donor-imposed restrictions when the related obligations have been satisfied.

Contributions of property and equipment are reported without donor-imposed restrictions 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 with donor-imposed restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed services are recognized as revenue if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that would typically need to be purchased if not provided by donation. Gifts of long-lived assets are recognized at fair value at the date of gift.

Cash and Cash Equivalents

Highly liquid investments with initial maturities of three months or less are considered to be cash equivalents unless they have donor-imposed restrictions or are board-designated for long term purposes.

Cash and cash equivalents and securities maintained through a registered securities dealer are insured up to \$500,000 by the Securities Investor Protection Corporation ("SIPC"). SIPC covers losses from fraud and negligence of the registered securities dealer, but not against market losses or investment return. Balances held in accounts may still at times exceed insured limits.

The Foundation has not incurred any losses in these accounts, outside normal trading activities, and does not believe that they are exposed to any significant credit risk on cash and cash equivalents.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges and Grants Receivable

Pledges and grants receivable consist primarily of receivables in the form of grants and promises to give and bequests from estates. Pledges, grants, and bequests receivable are recorded at net realizable value which approximates fair value. The Foundation considers pledges, grants, bequests, and other accounts receivables to be fully collectible, and accordingly, no allowance for doubtful accounts has been estimated. Bequests are recorded as revenue and receivable when the Foundation is notified that the donor's estate names the Foundation as a beneficiary and the amount is known or can be reasonably estimated.

Inventory

Inventory consists primarily of shirts and totes used by unrelated organizations that use the Foundation's training facility. Inventory is valued at cost using the first-in, first-out method.

Investment Valuation and Income Recognition

The Foundation's investments are stated at fair value. Realized and unrealized gains and losses on investments are determined by comparison of the actual cost to the proceeds at the time of disposition or fair value as of the end of the financial statement period. Dividend and interest income are recorded as earned on the accrual basis. Investment income or loss (including realized and unrealized gains and losses on investments, interest, dividends, and investment fees) is included on the statements of activities.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition, or if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	39 years
Leasehold improvements	5 to 15 years
Equipment and furnishings	2 to 10 years
Vehicles	3 to 5 years

The Foundation's policy is to capitalize improvements and betterments acquired for greater than \$500 and expense normal repairs and maintenance as incurred. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered in the ordinary course of use. No impairment losses were recognized during the years ended September 30, 2023, and 2022.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (e.g., the fair value of financial instruments, potential impairments to fixed assets and accrued expenses) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Advertising and Marketing

The Foundation expenses the costs of advertising as incurred.

Income Tax Status

The Foundation is exempt from Federal and state income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and California tax laws. In addition, the Internal Revenue Service has determined that the Foundation is not a "private foundation" within the meaning of Section 509(a) and qualifies for deductible contributions as provided in IRC Section 170(b)(1)(A)(vi). Accordingly, no provision is required to be made for income taxes in the accompanying financial statements. There was no unrelated business income for the years ended September 30, 2023, and 2022. At September 30, 2023, the Foundation's returns generally remain open for examination by federal and state taxing authorities, generally for three years and four years respectively, after they are filed.

Functional Allocation of Expenses

The cost of providing the various programs and activities has been detailed on a functional basis in the statements of functional expenses and summarized on the statements of activities. Where practicable, expenses are directly charged to the program activities or supporting service categories. Costs that are not specifically identifiable within the functional expense categories are allocated. Allocated costs include salaries and related expenses, utilities, repairs & maintenance, computer and website, and insurance. Such expenses are allocated based upon the use of square footage or by functionality at the National Training Center.

Application of New Accounting Standard

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets on the statement of financial position with a corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for non-profit organizations for the annual reporting period beginning after December 15, 2021. The Foundation has no long-term leases that meet the requirements of the new standard, and accordingly, the new standard had no effect on the Foundation's financial statements.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 3 - PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable at September 30, 2023, and 2022, consists of pledges, grants, and bequests from estates totaling \$752,962, and \$787,834, respectively. At September 30, 2023, and 2022 substantially all pledges are due within one year.

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Foundation maintains bank accounts at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2023, and 2022, the Foundation had \$817,997 and \$1,091,470, respectively, of uninsured cash.

At September 30, 2023, and 2022, there were four pledges or grants totaling \$597,861 and one pledge or grant totaling \$342,500, respectively, representing 79% and 44%, respectively, of pledges and grants receivable.

NOTE 5 - INVESTMENTS

Some of the Foundation's investments consist of a board restricted endowment fund from unrestricted resources that the board of directors has chosen to hold as a general endowment fund (See Note 10 for additional information).

In accordance with authoritative guidance on fair value measurements and disclosures under GAAP, the Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 5 – INVESTMENTS (Continued)

The following table presents information about the Foundation's investments measured at fair value as of September 30, 2023, and 2022:

Assets at Fair Value as of September 30, 2023				
	Level 1	Level 2	Level 3	Total
Equities	\$5,047,782	\$ 0	\$ 0	\$5,047,782
Corporate Bonds	49,806	0	0	49,806
Mutual Funds	629,149	0	0	629,149
U.S. Treasury Notes	1,710,964	0	0	1,710,964
Certificate of Deposit	299,630	0	0	299,630
Exchanged Traded Funds (ETF)	1,688,437	0	0	1,688,437
Money Market	536,815	0	0	536,815
	<u>\$9,962,583</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$9,962,583</u>

Assets at Fair Value as of September 30, 2022				
	Level 1	Level 2	Level 3	Total
Equities	\$3,899,409	\$ 0	\$ 0	\$3,899,409
Corporate Bonds	99,293	0	0	99,293
Mutual Funds	366,826	0	0	366,826
U.S. Treasury Notes	1,578,724	0	0	1,578,724
Exchanged Traded Funds (ETF)	2,537,204	0	0	2,537,204
Money Market	466,135	0	0	466,135
	<u>\$8,947,591</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$8,947,591</u>

The tables above include both “Investments” and “Investments – board designated endowment” in the accompanying statements of financial position. At September 30, 2023 and 2022, the Investments balance was \$1,869,186 and \$1,650,141, respectively, and Investments - board designated endowment balance was \$8,093,397 and \$7,297,450, respectively. Investments are not commingled with Investments - board designated endowment and are held in separate brokerage accounts. See Note 10 for a more detailed description of the board designated endowment and activity.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 5 – INVESTMENTS (Continued)

	2023	2022
Interest and dividends	\$ 265,128	\$ 114,454
Realized gains/(losses)	(12,415)	79,174
Unrealized gains/(losses)	676,560	(1,171,561)
Investment expenses	(57,168)	(49,977)
Total investment income/(loss)	<u>\$ 872,105</u>	<u>\$ (1,027,910)</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2023, and 2022:

	2023	2022
Buildings	\$ 19,005,108	\$ 18,954,607
Land improvements	6,312,130	6,277,383
Automobiles	500,381	461,646
Office equipment	599,841	596,027
Equipment	377,530	330,686
Furniture and fixtures	306,205	286,778
	<u>27,101,195</u>	<u>26,907,127</u>
Less: accumulated depreciation	<u>(5,524,776)</u>	<u>(4,691,398)</u>
	21,576,419	22,215,729
Construction in progress	709,662	61,190
Land	4,573,360	4,573,360
	<u>\$ 26,859,441</u>	<u>\$ 26,850,279</u>

Depreciation and amortization expense for the years ended September 30, 2023, and 2022, was \$850,341 and \$864,839, respectively.

NOTE 7 - NOTES PAYABLE

In February 2008, the Foundation acquired vacant land for the National Training Center. The purchase was financed with a note payable to the seller of the property in the amount of \$3,000,000. The note is secured by the property acquired and accrues interest at 6% per annum through February 2011.

NATIONAL DISASTER SEARCH DOG FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended September 30, 2023 and 2022

NOTE 7 - NOTES PAYABLE (Continued)

Beginning on April 1, 2013, the note was renegotiated; the annual interest rate was reduced to 4.50% simple interest per annum with annual payments of \$300,000 due annually on December 14th starting in 2014. The note was renegotiated again in July of 2019. Beginning on August 15, 2019, the Foundation will make payments of \$20,000, plus accrued interest, on a monthly basis until July 15, 2029, when the note will be paid in full. The interest rate remains unchanged.

The balance, including unpaid accrued interest, of the loan at September 30, 2023, and 2022, was \$1,385,478, and \$1,625,478, respectively. Payments of principal during the next five years as of September 30, 2023, are as follows:

Years ending September 30,	
2024	\$ 240,000
2025	240,000
2026	240,000
2027	240,000
2028	240,000
Thereafter	185,478
	<u>\$ 1,385,478</u>

NOTE 8 - LINE OF CREDIT

The Foundation has a revolving line of credit with Montecito Bank and Trust. Interest is variable at 1.0% plus the prime rate per annum with a minimum stated interest rate of 5.0% per annum. The line of credit has a maturity date of May 16, 2027. At September 30, 2023, the balance on the line of credit was \$0 and available credit was \$2,600,000. The Foundation has pledged all of its personal and real property as security for the line of credit.

NOTE 9 - RETIREMENT PLAN

The Foundation maintains a 401(k) Plan (the "Plan") for employees and provides matching contributions up to a maximum of 3.5% of eligible compensation. An employee is eligible to join the Plan after reaching the age of 21 and having completed three (3) months of service with the Foundation. The Foundation may also make an annual discretionary profit-sharing contribution for eligible employees. For the years ended September 30, 2023, and 2022, the Foundation's matching contributions were \$59,635 and \$51,976, respectively; however, the Foundation did not make a profit-sharing contribution for the years then ended.

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 10 - BOARD DESIGNATED ENDOWMENT FUND

The objective of the SDF Endowment is to achieve a total return equivalent to or greater than the Endowment's financial requirements in perpetuity, exclusive of annual contributions, withdrawals, or institutional fees. The Endowment's financial requirements are the sum of the spending rate, the long-term inflation rate, the aggregate costs of portfolio management, administrative costs, and any growth factor that the Board may, from time to time, determine appropriate.

Return objectives and risk parameters

Over the short (3 years) and longer-term (10 years), the portfolio should provide a time-weighted total net return in excess of a Custom Policy Benchmark based on the strategic asset allocation weights to market indices as defined in the IPS.

Strategies employed for achieving objectives

The strategic asset allocation is purposely set at a broad level with respect to the asset classes to allow the Investment Managers sufficient discretion to seek relative opportunities within each category. Subject to the terms and conditions of this IPS, the Investment Manager shall have full discretionary authority to direct investment, exchange, and liquidation of the asset in the Endowment and rebalance the portfolio as needed. It is acknowledged that in extreme market conditions, there may be periods where the portfolio exceeds the minimum or maximum ranges shown. Management of the Fund's portfolio should focus on satisfying the long-term goals of the Fund, and accordingly, has established the following investment asset allocation targets:

	<u>Lower Limit</u>	<u>Upper Limit</u>
Equities	45%	75%
Liquid Real Estate	0%	10%
Fixed Income	15%	35%
Cash Instruments	0%	20%

Spending policy and how investment objectives relate to spending policy

The maximum spending rate to distribute from the Endowment is an amount equal to 5% of the average fund balance. The average fund balance is calculated using the average fund balance of the prior 3 years as of June 30 of each year. The spending amount can be distributed during the first quarter of the next calendar year.

NATIONAL DISASTER SEARCH DOG FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2023 and 2022

NOTE 10 - BOARD DESIGNATED ENDOWMENT FUND (Continued)

Fund composition

Changes in the board designated endowment fund are as follows:

	2023	2022
Balance, beginning of year	\$ 7,297,450	\$ 5,546,522
Investment income	853,305	(974,581)
Transfers to board designated endowment fund	46,012	2,775,024
Transfers from board designated endowment fund	(46,961)	0
Investment fees	(56,409)	(49,515)
Balance, end of year	<u>\$ 8,093,397</u>	<u>\$ 7,297,450</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

On September 6, 2023, the Foundation entered into an agreement for the purchase and installation of a battery energy storage system. The total cost of the agreement is \$660,200 and is expected to be completed in the next year.

The Foundation applied for and was approved for \$453,759 in grant/rebate funds to offset the cost of the battery energy storage system and solar panel system. These funds are expected to be received over the next five-years and will be recognized as revenue when the conditions are substantially met under the terms of the rebate program.

NOTE 12 - NET ASSETS WITH DONOR-IMPOSED RESTRICTIONS

Net assets with donor-imposed restrictions at September 30, 2023, and 2022, are restricted for the following purposes:

	2023	2022
Subject to the Passage of Time or for Specified Use:		
National Training Center	\$ 185,255	\$ 215,000
Canine healthcare	75,000	0
Canine training	213,540	116,970
Advertising	0	13,500
Insurance	0	200,000
	<u>\$ 473,795</u>	<u>\$ 545,470</u>

NATIONAL DISASTER SEARCH DOG FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended September 30, 2023 and 2022

NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Foundation has the following financial assets that could readily be made available within one year of the statement of financial position to fund expenses:

	2023	2022
Cash	\$ 362,535	\$ 525,827
Pledges and grants receivable	752,962	787,834
Investments – board designated endowment fund	8,093,397	7,297,450
Investments	1,869,186	1,650,141
	<u>\$ 11,078,080</u>	<u>\$ 10,261,252</u>

In addition to financial assets available to meet general expenditures the Foundation operates with a balanced budget and anticipates covering its general expenditures through donations and grants from the general public, training center fees, fundraising events, and investment return.

NOTE 14 - EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 11, 2024, the date the financial statements were available to be issued.