

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 397,460	\$ 321,945
Contributions receivable	13,735	15,000
Inventories	13,845	16,415
Prepaid expenses	<u>1,000</u>	<u>4,500</u>
Total Current Assets	426,040	357,860
Property and equipment, net	<u>1,693,777</u>	<u>1,639,217</u>
Total Assets	<u><u>\$ 2,119,817</u></u>	<u><u>\$ 1,997,077</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 4,962	\$ 4,508
Accrued liabilities	135,886	57,418
Deferred revenue	38,258	31,206
Notes payable, current portion	<u>26,604</u>	<u>24,451</u>
Total Current Liabilities	<u>205,710</u>	<u>117,583</u>
Notes payable, net of current portion	<u>743,151</u>	<u>767,514</u>
Total Liabilities	<u>948,861</u>	<u>885,097</u>
Net Assets:		
Without donor restrictions		
Undesignated	<u>1,140,378</u>	<u>1,059,952</u>
Total net assets without donor restrictions	1,140,378	1,059,952
With donor restrictions	<u>30,578</u>	<u>52,028</u>
Total net assets with donor restrictions	30,578	52,028
Total Net Assets	<u>1,170,956</u>	<u>1,111,980</u>
Total Liabilities and Net Assets	<u><u>\$ 2,119,817</u></u>	<u><u>\$ 1,997,077</u></u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Program fees	\$ 503,428	\$ -	\$ 503,428
Contributions	176,948	-	176,948
Grants	106,000	30,578	136,578
Contributed goods and services	140,000	-	140,000
Product sales, net of cost of goods sold of \$12,307	3,996	-	3,996
Net assets released from restriction	52,028	(52,028)	-
Total Support and Revenue	<u>982,400</u>	<u>(21,450)</u>	<u>960,950</u>
Expenses			
Program services			
Hounds for Heroes	243,486	-	243,486
Bow Wow Therapy Dogs	105,345	-	105,345
Learning Academy	358,960	-	358,960
Shear Excellence Academy	28,032	-	28,032
Total program services	<u>735,823</u>	<u>-</u>	<u>735,823</u>
Supporting services:			
General and administrative	160,291	-	160,291
Fundraising	5,860	-	5,860
Total Expenses	<u>901,974</u>	<u>-</u>	<u>901,974</u>
Change in Net Assets	80,426	(21,450)	58,976
Net Assets, Beginning of Year	<u>1,059,952</u>	<u>52,028</u>	<u>1,111,980</u>
Net Assets, End of Year	<u>\$ 1,140,378</u>	<u>\$ 30,578</u>	<u>\$ 1,170,956</u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Program fees	\$ 365,453	\$ -	\$ 365,453
Contributions	152,815	-	152,815
Grants	26,999	65,633	92,632
Government grants	73,100	-	73,100
Contributed goods and services	13,899	5,000	18,899
Product sales, net of cost of goods sold of \$10,415	10,167	-	10,167
Net assets released from restriction	18,605	(18,605)	-
	<u>661,038</u>	<u>52,028</u>	<u>713,066</u>
Total Support and Revenue			
	<u>661,038</u>	<u>52,028</u>	<u>713,066</u>
Expenses			
Program services			
Hounds for Heroes	181,573	-	181,573
Bow Wow Therapy Dogs	78,101	-	78,101
Learning Academy	296,142	-	296,142
Shear Excellence Academy	32,475	-	32,475
Total program services	<u>588,291</u>	<u>-</u>	<u>588,291</u>
Supporting services:			
General and administrative	61,350	-	61,350
Fundraising	40,805	-	40,805
	<u>690,446</u>	<u>-</u>	<u>690,446</u>
Total Expenses			
	<u>690,446</u>	<u>-</u>	<u>690,446</u>
Change in Net Assets	(29,408)	52,028	22,620
Net Assets, Beginning of Year	<u>1,089,360</u>	<u>-</u>	<u>1,089,360</u>
Net Assets, End of Year	<u>\$ 1,059,952</u>	<u>\$ 52,028</u>	<u>\$ 1,111,980</u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

Expense Category	Program Services				Supporting Services		Total
	Hounds for Heroes	Bow Wow Therapy Dogs	Learning Academy	Sheer Excellence Academy	General and Administrative	Fundraising	
Accounting services	\$ -	\$ -	\$ -	\$ -	\$ 9,060	\$ -	\$ 9,060
Bank fees	-	15	-	-	16,353	-	16,368
Depreciation expense	34,173	12,815	34,173	4,272	-	-	85,433
Facilities and equipment	7,450	2,794	7,450	931	-	-	18,625
Fundraising and grant writing	1,463	15	165	-	425	-	2,068
Insurance	3,781	1,620	3,781	324	1,296	-	10,802
Interest	5,244	2,571	12,984	7,823	4,689	-	33,311
Legal expenses	-	-	-	-	15,728	-	15,728
Legal settlement	-	-	-	-	40,000	-	40,000
Other	3,959	-	5,917	-	11	-	9,887
Payroll expenses	152,220	75,217	237,889	12,216	66,356	5,860	549,758
Program delivery costs	29,273	1,564	21,999	1,018	1,207	-	55,061
Repairs and maintenance	5,157	1,934	20,157	645	-	-	27,893
Website software	766	6,800	14,445	803	5,166	-	27,980
Total expenses	<u>\$ 243,486</u>	<u>\$ 105,345</u>	<u>\$ 358,960</u>	<u>\$ 28,032</u>	<u>\$ 160,291</u>	<u>\$ 5,860</u>	<u>\$ 901,974</u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
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STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

Expense Category	Program Services				Supporting Services		Total
	Hounds for Heroes	Bow Wow Therapy Dogs	Learning Academy	Sheer Excellence Academy	General and Administrative	Fundraising	
Accounting services	\$ -	\$ -	\$ -	\$ -	\$ 8,550	\$ -	\$ 8,550
Bank fees	-	-	-	-	13,304	-	13,304
Depreciation expense	17,691	10,109	20,220	2,527	-	-	50,547
Facilities and equipment	1,623	655	11,701	792	3,847	-	18,618
Insurance	2,104	2,792	3,186	540	484	-	9,106
Interest	9,841	4,991	12,823	2,533	5,841	-	36,029
Other	791	370	1,784	-	1,500	4,437	8,882
Payroll expenses	123,097	46,839	211,141	19,611	26,045	36,368	463,101
Program delivery costs	17,704	1,612	8,983	4,559	153	-	33,011
Repairs and maintenance	7,183	1,322	13,338	1,680	149	-	23,672
Website software	1,539	9,411	12,966	233	1,477	-	25,626
Total expenses	<u>\$ 181,573</u>	<u>\$ 78,101</u>	<u>\$ 296,142</u>	<u>\$ 32,475</u>	<u>\$ 61,350</u>	<u>\$ 40,805</u>	<u>\$ 690,446</u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
(A Nonprofit Corporation)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 58,976	\$ 22,620
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	85,433	50,547
Donated property	(120,000)	(3,258)
Change in assets and liabilities:		
Contributions receivable	1,265	(4,919)
Inventories	2,570	(8,650)
Prepaid expenses	3,500	(4,500)
Accounts payable and accrued liabilities	78,922	28,298
Deferred revenue	<u>7,052</u>	<u>(6,871)</u>
Net cash provided by operating activities	<u>117,718</u>	<u>73,267</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(19,993)</u>	<u>(44,003)</u>
Net cash used by investing activities	<u>(19,993)</u>	<u>(44,003)</u>
Cash flows from financing activities:		
Repayments of loans	<u>(22,210)</u>	<u>(21,209)</u>
Net cash used by financing activities	<u>(22,210)</u>	<u>(21,209)</u>
Net Increase in Cash and Cash Equivalents	75,515	8,055
Cash and Cash Equivalents, beginning of year	<u>321,945</u>	<u>313,890</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 397,460</u></u>	<u><u>\$ 321,945</u></u>
Supplemental Data:		
Interest paid	<u><u>\$ 31,036</u></u>	<u><u>\$ 30,187</u></u>
Income tax paid	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying auditors' report and notes to financial statements

AUSTIN DOG ALLIANCE
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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE A – ORGANIZATION

Austin Dog Alliance (“The Dog Alliance”), operating under the dbas The Dog Alliance and Hounds for Heroes, was established in May 2006 to improve lives through therapeutic programs based on the human and canine bond. The Dog Alliance uses science-based, positive reinforcement training techniques to guide humans and dogs to live together harmoniously. The Dog Alliance achieves its mission through a variety of initiatives including the following activities:

Hounds for Heroes – The Dog Alliance provides free service dogs to Texas veterans and first responders with service-related PTSD and or mobility challenges. The Dog Alliance also offers a Train Your Own Service Dog course providing professional instruction for Texans with mental and or physical disabilities who want to train their own service dog. Texas veterans and first responders are provided the service free of charge when their application is approved. Expenses for Train Your Own Service Dog classes for veterans and first responders are included with Hounds for Heroes in the statement of functional expenses.

Bow Wow Therapy Dogs – The Dog Alliance provides therapy dogs at family courts, the children’s hospital, nursing homes, libraries, and hospitals. Bow Wow Therapy Dogs and their handlers who are trained to assist children with reading skills provide support for struggling readers at local schools and libraries. Bow Wow Therapy dogs also provide stress relief for employees, first responders, health care professionals, and college students.

Learning Academy for Dogs and Humans – The Dog Alliance offers a wide variety of classes for dogs and their humans. Summer camps are provided for children ages 5 – 14. Beginning in 2021, families are able to drop their dog off at The Dog Alliance for training during the day. Expenses for Train Your Own Service Dog classes for students that are not Texas veterans or first responders are included with the Learning Academy in the statement of functional expenses.

Sheer Excellence Dog Grooming Academy – Over a 9-month period, students learn the skills needed for a professional career as a pet stylist.

The Dog Alliance is funded primarily through program fees, contributions, and grants.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Dog Alliance is presented to assist in understanding The Dog Alliance’s financial statements. The financial statements and notes are representations of The Dog Alliance’s management who is responsible for their integrity and objectivity. The accounting policies conform to U.S. generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include those assumed in the functional allocation of expenses, valuation of in-kind contributions and depreciation. Actual results could differ from those estimates.

Financial Statement Presentation

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of The Dog Alliance and changes therein are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include the revenues and expenses of the primary operations of The Dog Alliance.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the statement of cash flows, The Dog Alliance considers all deposits in banks and interest-bearing instruments with a maturity of three months or less as cash equivalents.

Receivables

Contributions receivable are recognized at the estimated present value of the future cash flows. There is no allowance for uncollectible contributions receivable recorded in the financial statements as management believes they are fully collectible. Receivables are

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

written off after all reasonable collection attempts have been exhausted. All contributions receivable are due within one year of the statement of financial position date.

Inventories

The Dog Alliance inventory consists of dog supplies purchased for resale. Inventory is valued at lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Property and Equipment

Acquisitions of property and equipment are stated at cost, if purchased, or fair market value on the date of donation, if received as a gift. Depreciation is calculated using the straight-line method over estimated lives of the assets, generally 3 years for computer equipment, 3 to 7 years for furniture and equipment, 10 years for the agility field, 7 years for site improvements, and 39 years for buildings. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

Revenue Recognition

Contracts with Customers – The Dog Alliance recognizes revenue from services such as training courses, dog adoptions, and program user fees as the services are provided or the adoption of a dog is complete.

Contributions – Contributions and grants received, including unconditional promises to give, are recorded as support without donor restrictions or with donor restrictions in the period received depending on the existence and/or nature of any donor restrictions. Contributions receivable are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received. Conditional promises to give and conditional grants are recognized as the conditions upon which they depend are substantially met.

The Dog Alliance reports contributions as restricted support if the support is 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 purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Goods and Services

The Dog Alliance records contributions of in-kind goods based on an estimate of the fair value on the date of the donation. The Dog Alliance recognizes donated services if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not contributed.

Credit Risk

Financial instruments that potentially subject The Dog Alliance to credit risk consist of cash and cash equivalents in banking institutions. The Dog Alliance's deposits exceeded the federal insurance limits by \$109,927 and \$38,303 at December 31, 2022 and 2021, respectively.

Credit risk associated with contributions receivable is considered to be limited due to the high historical collection rates.

Functional Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses reports the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs, general and administrative, and fundraising services benefited. Personnel costs have been allocated based on time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of The Dog Alliance.

Change in Not-for-Profit Accounting Standards

In September 2020, the FASB issued ASU 2020-07, *Not-for Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU 2020-07 is effective for annual period beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The Dog Alliance adopted ASU 2020-07 in these financial statements with no significant changes in presentation or disclosures.

NOTE C – TAX EXEMPT STATUS

The Dog Alliance is exempt from federal income tax except on unrelated business income under the Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and is an organization described in Section 170(b)(1)(A)(ii). Therefore, no provision for income taxes has been included in these financial statements. The Dog

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE C – TAX EXEMPT STATUS (continued)

Alliance has adopted the recognition requirements for uncertain income tax positions as required by GAAP, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when determined that the income tax position will more likely than not be sustained upon examination by taxing authorities.

The Dog Alliance has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Dog Alliance believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on The Dog Alliance's financial position, changes in net assets or cash flows.

Accordingly, The Dog Alliance has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2022 and 2021. The Dog Alliance is subject to audit by taxing authorities for the previous three years which are considered open. There are currently no income tax audits in progress.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Agility field	\$ 79,457	\$ 79,457
Building	1,183,007	1,166,735
Furniture and equipment	112,270	108,551
Land	561,304	561,304
Site improvements	<u>221,493</u>	<u>101,493</u>
Total	2,157,531	2,017,540
Less accumulated depreciation	<u>(463,754)</u>	<u>(378,323)</u>
Property and equipment, net	<u>\$ 1,693,777</u>	<u>\$ 1,639,217</u>

Depreciation expense was \$85,433 and \$50,547 for the years ended December 31, 2022 and 2021, respectively.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE E – ACCRUED VACATION

The Dog Alliance recognized a liability for earned vacation time unused at December 31, 2022 and 2021 for all eligible employees. Vacation time accrues on a monthly basis and employees are paid for unused vacation at termination. The amount of accrued vacation payable was \$67,157 and \$46,203 as of December 31, 2022 and 2021, respectively. Accrued vacation is included in accrued liabilities on the statement of financial position.

NOTE F – DEFERRED REVENUE

The following table provides information about significant changes in the deferred revenue for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Class fees paid in advance, beginning of year	\$ 31,206	\$ 38,077
Class fees paid in advance recognized during the year	(31,206)	(27,160)
Class fees paid in advance during the year	<u>38,258</u>	<u>20,289</u>
Class fees paid in advance, end of year	<u>\$ 38,258</u>	<u>\$ 31,206</u>

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

Net assets were restricted by donors for the following purposes for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Service dog training	\$ 25,000	\$ 31,560
Bow Wow Therapy	-	4,500
Service dog educational outreach	-	5,000
Capital improvements	5,578	5,000
Mobility equipment for service dog training	-	5,968
Total net assets with donor restrictions	<u>\$ 30,578</u>	<u>\$ 52,028</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended December 31, 2022 and 2021:

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS (continued)

	<u>2022</u>	<u>2021</u>
Service dog training	\$ 31,560	\$ 12,940
Bow Wow Therapy	4,500	500
Service dog educational outreach	5,000	5,000
Capital improvements	5,000	-
Mobility equipment for service dog training	5,968	165
Total net assets released from restrictions	<u>\$ 52,028</u>	<u>\$ 18,605</u>

NOTE H – NOTES PAYABLE

Notes payable consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Note payable to Frost Bank, in the amount of \$670,000, executed August 6, 2020, bearing interest at 4.556%, payable in monthly installments of \$4,283, with a final balloon payment due at maturity on August 6, 2030. The note is secured by real property of The Dog Alliance. Refinancing costs of \$12,319 are included in the principal of the note.	\$ 619,755	\$ 641,965
Note payable to SBA, executed May 8, 2020, bearing interest at 2.75%, payable in monthly installments of \$641 beginning November 8, 2022 with a final payment of any remaining principal and interest due in full on May 8, 2050. The note is secured by The Dog Alliance's tangible and intangible personal property.	<u>150,000</u>	<u>150,000</u>
Total notes payable	769,755	791,965
Less current portion	<u>(26,604)</u>	<u>(24,451)</u>
Total long-term debt	<u>\$ 743,151</u>	<u>\$ 767,514</u>

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December 31, 2022 and 2021

NOTE H – NOTES PAYABLE (continued)

The future maturities of debt are as follows:

Year ending December 31:		
2023	\$	26,604
2024		27,717
2025		29,036
2026		30,337
2027		31,699
Thereafter		<u>624,362</u>
Total notes payable	\$	<u>769,755</u>

Interest expense on the loans for the years ended December 31, 2022 and 2021 were \$33,311 and \$36,028 respectively.

NOTE I – GRANTS AND RELIEF FUNDING

On January 28, 2021, The Dog Alliance was approved for a Paycheck Protection Plan (PPP) loan in the amount of \$73,100 with an interest rate of 1% per annum. The Dog Alliance used the proceeds of the loan only for the purposes authorized by the PPP and the loan was forgiven in full by the SBA in January 2022. The Dog Alliance recognized the \$73,100 as a government grant on the statement of activities for the year ended December 31, 2021.

NOTE J – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The requirements of *Fair Value Measurements and Disclosures* of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE J – FAIR VALUE MEASUREMENTS AND DISCLOSURES (continued)

which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (an exit price). *Fair Value Measurements and Disclosures* also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- *Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.*
- *Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.*
- *Level 3 Inputs – Unobservable inputs for the asset or liability.*

Description	Amount	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2022</u>				
Notes payable	<u>\$ 769,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 769,755</u>
<u>2021</u>				
Notes payable	\$ 791,965	\$ -	\$ -	\$ 791,965

The fair value of The Dog Alliance's current assets and current liabilities approximate the carrying amounts of such instruments due to their short maturity.

The fair value of level 3 liabilities is based on stated note balances. The table below sets forth a summary of changes in The Dog Alliance's level 3 liabilities for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Notes payable at beginning of year	\$ 791,965	\$ 813,174
Principal payments	<u>(22,210)</u>	<u>(21,209)</u>
Notes payable at end of year	<u>\$ 769,755</u>	<u>\$ 791,965</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE K – CONTRIBUTED GOODS AND SERVICES

During the years ending December 31, 2022 and 2021, The Dog Alliance recorded the following contributed goods and services:

	<u>2022</u>	<u>2021</u>
Site improvements	\$ 120,000	\$ 3,258
Veterinarian services	5,000	4,916
Grounds maintenance	15,000	2,350
Gift cards	-	5,000
Other	<u>-</u>	<u>3,375</u>
Total contributed goods and services	<u>\$ 140,000</u>	<u>\$ 18,899</u>

The Dog Alliance received contributions of donated labor and equipment to improve the property with a fair value based on current retail rates for similar services and products. The improvements were capitalized.

Contributed veterinarian services are used for program services and are recognized at fair value based on current rates for similar veterinarian services.

Grounds maintenance services were contributed to maintain the property used in program services and recognized at fair value based on current rates for similar services.

Gift cards are recognized at face value. In 2021, the contribution of gift cards was restricted for use in program services.

The Dog Alliance receives a substantial amount of volunteer services that do not meet the criteria for recognition in the financial statements.

NOTE L – RELATED PARTY TRANSACTIONS

Contributions from Board members amounted to approximately \$32,738 and \$35,964 for the years ended December 31, 2022 and 2021, respectively. The Executive Director is a voting Board member and an employee of The Dog Alliance.

A member of management owns two dogs that are used to support The Dog Alliance activities. The owner of the dogs volunteers time to train the dogs and pays for travel expenses related to training. Vet care, out of pocket training costs, and care supply costs for the dogs are shared between the dog owner and The Dog Alliance. The dogs receive a small

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NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE L – RELATED PARTY TRANSACTIONS (continued)

amount of training from The Dog Alliance's volunteers or trainers. The owner has the option of keeping the dogs when she leaves The Dog Alliance employment.

NOTE M – RETIREMENT PLAN

The Dog Alliance sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code (IRC) for all eligible employees who are age 21 or older and have completed three months of service. Participating employees may contribute to the plan through payroll deductions. The Dog Alliance matches 100% of employee contributions up to 3% and 50% of employee contributions between 3% and 5%. The Dog Alliance may also make discretionary profit-sharing contributions to the plan. Total employer contributions to the plan during the years ended December 31, 2022 and 2021 were \$15,122 and \$12,416, respectively.

NOTE N – LIQUIDITY AND AVAILABILITY

As of December 31, 2022, The Dog Alliance has \$380,617 of financial assets available to meet cash needs for general expenditures within one year. These assets consist of cash and cash equivalents of \$397,460 and contributions receivable of \$13,735, less net assets with donor restrictions of \$30,578.

The Dog Alliance operates with a balanced budget and anticipates only incurring expenses if adequate funds are available to pay for them. The Dog Alliance regularly monitors liquidity required to meet its operating needs and other contractual commitments. Additionally, The Dog Alliance's goal is to generally maintain cash reserves equivalent to approximately six months of operating expenses.

NOTE O – LITIGATION

The Dog Alliance was a defendant in a lawsuit alleging breach of contract and fraud. The lawsuit was started in 2017 based on a 2014 adoption. The lawsuit was settled in February 2023. The settlement cost of \$40,000 and attorney fees of \$15,728 have been accrued and are included in the accrued liabilities on the statement of financial position at December 31, 2022.

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NOTES TO FINANCIAL STATEMENTS

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NOTE P – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Management evaluated subsequent events through the date the financial statements were available for issuance, May 31, 2023, and other than the settlement of the lawsuit discussed in Note O, there were no significant subsequent events to be disclosed.