

**NATIONAL DISASTER  
SEARCH DOG FOUNDATION**

**INDEPENDENT AUDITORS' REPORT  
AND CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2015  
AND NINE MONTHS ENDED  
SEPTEMBER 30, 2014**

# NATIONAL DISASTER SEARCH DOG FOUNDATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
National Disaster Search Dog Foundation

We have audited the accompanying consolidated financial statements of National Disaster Search Dog Foundation (a nonprofit organization) as of September 30, 2015 and September 30, 2014 which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities, cash flows, and functional expenses for the year ended and the nine months 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 consolidated 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**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, we 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 evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Disaster Search Dog Foundation as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the year ended and the nine months ended in accordance with accounting principles generally accepted in the United States of America.

*Kinricher, Douglas & Porter LLP*

Thousand Oaks, California  
February 4, 2016

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

ASSETS

	September 30,	
	2015	2014
Current assets:		
Cash and cash equivalents	\$ 4,590,572	\$ 1,925,656
Investments	2,831,106	2,781,026
Accounts receivable	3,805,601	3,118,125
Prepaid expenses	19,152	7,937
Inventory	13,634	36,768
Deposits	3,000	3,015
Total current assets	11,263,065	7,872,527
Fixed Assets		
Property and equipment, net of accumulated depreciation of \$478,558 and \$325,055	3,613,307	3,775,970
Construction in progress	10,643,306	7,396,697
Land	3,901,019	3,901,019
Total Fixed Assets	18,157,632	15,073,686
Intangible assets, net of accumulated amortization of \$36,031 and \$13,563	51,782	58,847
Total assets	\$ 29,472,479	\$ 23,005,060

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 1,015,188	\$ 326,141
Accrued salary and benefits	62,685	51,218
Agency funds	74,923	96,058
Total current liabilities	1,152,796	473,417
Long-term liabilities:		
Note payable	3,253,183	3,409,361
Total long-term liabilities	3,253,183	3,409,361
Total liabilities	4,405,979	3,882,778
Net assets:		
Unrestricted	7,191,158	7,484,956
Temporarily restricted	17,875,342	11,637,326
	25,066,500	19,122,282
Total liabilities and net assets	\$ 29,472,479	\$ 23,005,060

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

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

	FOR THE YEAR ENDED SEPTEMBER 30, 2015			FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support, revenue and reclassification						
Contributions	\$ 682,667	\$ 6,238,016	\$ 6,920,683	\$ 518,123	\$ 1,805,724	\$ 2,323,847
Grants	952,600	0	952,600	497,050	0	497,050
Bequest income	272,789	0	272,789	97,085	0	97,085
Year end appeals	128,553	0	128,553	70,889	0	70,889
In-kind donations	2,487,234	0	2,487,234	2,249,167	0	2,249,167
Investment income	(54,908)	0	(54,908)	118,926	0	118,926
Sponsorship income	218,582	0	218,582	77,681	0	77,681
Merchandising income	40,067	0	40,067	19,166	0	19,166
Other income	17,707	0	17,707	9,682	0	9,682
Sponsorship income - SDUSA	157,222	0	157,222	38,124	0	38,124
Releases of restricted net assets	0	0	0	2,224,607	(2,224,607)	0
Total public support	<u>4,902,513</u>	<u>6,238,016</u>	<u>\$ 11,140,529</u>	<u>5,920,500</u>	<u>(418,883)</u>	<u>\$ 5,501,617</u>
Operating expenses						
Program services	4,266,558	0	4,266,558	3,432,517	0	3,432,517
General and administrative	372,066	0	372,066	262,956	0	262,956
Fundraising	381,974	0	381,974	351,689	0	351,689
Operating expenses - SDUSA	175,713	0	175,713	263,493	0	263,493
Total expenses	<u>5,196,311</u>	<u>0</u>	<u>5,196,311</u>	<u>4,310,655</u>	<u>0</u>	<u>4,310,655</u>
Change in net assets	(293,798)	6,238,016	5,944,218	1,609,845	(418,883)	1,190,962
Net assets at beginning of year	<u>7,484,956</u>	<u>11,637,326</u>	<u>19,122,282</u>	<u>5,875,111</u>	<u>12,056,209</u>	<u>17,931,320</u>
Net assets at end of year	<u>\$ 7,191,158</u>	<u>\$ 17,875,342</u>	<u>\$ 25,066,500</u>	<u>\$ 7,484,956</u>	<u>\$ 11,637,326</u>	<u>\$ 19,122,282</u>

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

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	FOR THE YEAR ENDED SEPTEMBER 30, 2015	FOR THE NINE MONTHS SEPTEMBER 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,944,218	\$ 1,190,962
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated stock	(4,970)	0
Depreciation and amortization	180,695	102,460
Loss on disposal	0	192
Realized (gains)/losses on investments	18,333	(89)
Unrealized (gains)/losses on investments	79,105	(85,675)
Accrued interest on notes payable	(156,178)	111,795
(Increase) decrease in:		
Accounts receivable	(687,476)	(144,749)
Prepaid expenses	(11,215)	(2,523)
Inventory	23,134	19,351
Deposits	15	0
Increase (decrease) in:		
Accounts payable and accrued expenses	689,047	120,464
Accrued salary and benefits	11,467	2,826
Agency funds	(21,135)	52,547
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>6,065,040</b>	<b>1,367,561</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to construction in progress	(3,232,080)	(956,725)
Purchases of intangible assets	(15,402)	(33,004)
Purchases of property and equipment	(10,094)	(13,945)
Purchases of investments	(1,221,507)	(1,479,801)
Proceeds from sales of investments	1,078,959	1,372,128
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(3,400,124)</b>	<b>(1,111,347)</b>
Total increase (decrease) in cash and cash equivalents	2,664,916	256,214
Cash and cash equivalents at beginning of year	1,925,656	1,669,442
Cash and cash equivalents at end of year	\$ 4,590,572	\$ 1,925,656

Supplemental information:

Interest paid	\$	300,000	\$	0
Income taxes	\$	0	\$	0

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

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	PROGRAM SERVICES				SUPPORTING SERVICES				TOTAL PROGRAM & SUPPORT
	Team Training & Related Expense	National Training Center	Other Program Related Expense	Total Program Services	Management & General	Fundraising	SDUSA	Total Supporting Services	
Salaries and related	\$ 172,062	\$ 66,816	\$ 421,598	\$ 660,476	\$ 283,625	\$ 273,630	\$ 110,196	\$ 667,451	\$ 1,327,927
Accounting and legal	0	2,905	0	2,905	20,581	342	11,428	32,351	35,256
Auto and travel	0	7,103	2,923	10,026	1,676	1,511	101	3,288	13,314
Insurance	0	3,884	1,052	4,936	15,001	832	0	15,833	20,769
Rent	0	0	29,232	29,232	2,784	2,784	900	6,468	35,700
Repairs and maintenance	0	21,079	916	21,995	1,327	2,567	0	3,894	25,889
Supplies	0	5,344	311,846	317,190	7,157	1,192	9,297	17,646	334,836
Utilities	0	16,719	7,967	24,686	1,742	2,726	4,421	8,889	33,575
Telephone	0	1,454	11,353	12,807	1,167	1,252	0	2,419	15,226
Computer	0	1,189	52,397	53,586	(2,255)	5,067	0	2,812	56,398
Marketing	0	0	43,442	43,442	4,015	22,186	3,448	29,649	73,091
Office	0	31	8,090	8,121	2,187	3,508	15,442	21,137	29,258
Shipping and postage	0	2,274	11,291	13,565	1,184	1,423	0	2,607	16,172
Trainer fees	218,400	0	0	218,400	0	0	0	0	218,400
Training sites	1,989,000	0	0	1,989,000	0	0	0	0	1,989,000
Handler costs	176,667	0	0	176,667	0	0	0	0	176,667
Equipment rental	0	0	5,257	5,257	501	501	0	1,002	6,259
Taxes and license	0	352	0	352	463	41	(3,879)	(3,375)	(3,023)
Canine recruiting and training	0	0	126,079	126,079	0	0	0	0	126,079
Lifetime care program	0	0	4,930	4,930	0	0	0	0	4,930
Events	0	86,674	(86,634)	40	88	2,347	0	2,435	2,475
In-kind program expenses	0	0	86,511	86,511	5,089	10,178	0	15,267	101,778
Outside services	0	254,071	26,068	280,139	239	5,739	24,359	30,337	310,476
Professional fundraising	0	0	0	0	13,433	42,739	0	56,172	56,172
Merchant fees and discounts	0	0	0	0	8,992	0	0	8,992	8,992
Total operating expenses before depreciation & amortization	2,556,129	469,895.00	1,064,318	4,090,342	368,996	380,565	175,713	925,274	5,015,616
Depreciation & Amortization	0	152,246	23,970	176,216	3,070	1,409	0	4,479	180,695
Total expenses and Depreciation & amortization	<u>\$ 2,556,129</u>	<u>\$ 622,141</u>	<u>\$ 1,088,288</u>	<u>\$ 4,266,558</u>	<u>\$ 372,066</u>	<u>\$ 381,974</u>	<u>\$ 175,713</u>	<u>\$ 929,753</u>	<u>\$ 5,196,311</u>

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



**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL PROGRAM & SUPPORT	
	Team Training & Related Expense	National Training Center	Other Program Related Expense	Total Program Services	Management & General	Fundraising	SDUSA		Total Supporting Services
Salaries and related	\$ 172,100	\$ 43,207	\$ 180,333	\$ 395,640	\$ 187,575	\$ 263,362	\$ 117,038	\$ 567,975	\$ 963,615
Accounting and legal	0	14,047	0	14,047	21,824	1,653	13,434	36,911	50,958
Auto and travel	0	6,869	3,417	10,286	1,121	1,769	782	3,672	13,958
Insurance	0	5,379	6,137	11,516	9,278	1,185	10,129	20,592	32,108
Rent	0	0	21,924	21,924	1,827	2,349	3,000	7,176	29,100
Repairs and maintenance	0	5,627	856	6,483	392	741	0	1,133	7,616
Supplies	0	7,903	218,030	225,933	829	1,398	22,449	24,676	250,609
Utilities	0	11,602	6,347	17,949	1,211	2,045	4,908	8,164	26,113
Telephone	0	1,001	10,083	11,084	891	1,188	0	2,079	13,163
Computer	0	0	33,654	33,654	2,567	3,448	0	6,015	39,669
Marketing	0	28	26,558	26,586	2,260	14,359	9,687	26,306	52,892
Office	0	46	5,228	5,274	2,318	987	17,850	21,155	26,429
Shipping and postage	0	117	6,969	7,086	578	774	0	1,352	8,438
Interest	0	1,369	0	1,369	161	80	0	241	1,610
Trainer fees	208,000	0	0	208,000	0	0	0	0	208,000
Training sites	1,839,500	0	0	1,839,500	0	0	0	0	1,839,500
Handler costs	102,341	0	0	102,341	0	0	0	0	102,341
Equipment rental	0	0	4,659	4,659	388	499	0	887	5,546
Taxes and license	0	169	0	169	160	19	692	871	1,040
Canine recruiting and training	0	0	69,806	69,806	0	0	0	0	69,806
Lifetime care program	0	0	4,284	4,284	0	0	0	0	4,284
Events	0	5,063	0	5,063	0	2,242	0	2,242	7,305
In-kind program expenses	0	174,326	0	174,326	10,254	20,509	0	30,763	205,089
Outside services	0	125,667	1,445	127,112	120	155	63,399	63,674	190,786
Professional fundraising	0	0	8,942	8,942	7,916	31,935	0	39,851	48,793
Contributions	0	0	0	0	0	0	125	125	125
Merchant fees and discounts	0	0	0	0	9,302	0	0	9,302	9,302
<b>Total operating expenses before depreciation &amp; amortization</b>	<b>2,321,941</b>	<b>402,420</b>	<b>608,672</b>	<b>3,333,033</b>	<b>260,972</b>	<b>350,697</b>	<b>263,493</b>	<b>875,162</b>	<b>4,208,195</b>
Depreciation & Amortization	0	82,615	16,869	99,484	1,984	992	0	2,976	102,460
<b>Total expenses and Depreciation &amp; amortization</b>	<b>\$ 2,321,941</b>	<b>\$ 485,035</b>	<b>\$ 625,541</b>	<b>\$ 3,432,517</b>	<b>\$ 262,956</b>	<b>\$ 351,689</b>	<b>\$ 263,493</b>	<b>\$ 878,138</b>	<b>\$ 4,310,655</b>

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

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

National Disaster Search Dog Foundation (the "Foundation"), a non-profit corporation located in Ojai, 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 also maintains a Search Endowment Fund which is included in Investments on the Statement of Financial Position (See note 4). This non-operating income Fund's goal is to provide at minimum 25% of current operating income needs. The Foundation has established seven months of capital reserves in order to provide uninterrupted services due to a temporary drop in gift income. Any reserves in excess of twelve months will be used to increase the Endowment Fund. There is no external restriction on the Endowment Fund balance. All restrictions related to this fund are set internally by the Foundation's management.

Management and the board have elected to change the year-end of the organization from December 31 to September 30. These consolidated financial statements are for the year ended September 30, 2015 and for nine months ended September 30, 2014.

**Consolidation**

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiary, Search Dog USA, Inc. a for-profit corporation. All significant intercompany accounts have been eliminated in consolidation. On August 31, 2015 the business activities of Search Dog USA, Inc. ceased, and accordingly, Search Dog USA was dissolved and any remaining assets and liabilities were distributed to the Foundation. There were no financial or tax implications to the Foundation as a result of the dissolution.

**Financial Statement Presentation**

The Foundation's consolidated financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation presently has no permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Foundation records contributions in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Restricted contributions are required to be reported as either temporarily or permanently restricted support and are reclassified to unrestricted net assets upon the release of restriction. In addition, unconditional promises to give are recorded in the year made. Conditional promises to give are recognized when the conditions upon which they were given are substantially met.

Contributed Services

The Foundation receives services from volunteers who perform various services for the Foundation. Contributions of goods and the use of facilities are also donated to the Foundation. The Foundation records the value of services and goods received at their estimated fair value at the date of donation.

Use of Estimates

The preparation of consolidated 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 (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.

Cash and Cash Equivalents

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

Investments

The Foundation presents its investments in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets and are allocated among the three classifications of net assets on the market value method.

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivables consist primarily of pledges receivable in the form of grants and promises to give. Pledges receivable are recorded at net realizable value which approximates fair value. The Foundation considers pledges, grants, and other accounts receivables to be fully collectible, accordingly, no allowance for doubtful accounts is required.

Inventory

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

Property and Equipment

Purchased property and equipment are stated at cost. Donated property is stated at fair value at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

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

Expenditures for maintenance and repairs are charged directly to the appropriate operating account at the time the expense is incurred. Expenditures determined to represent additions and betterments are capitalized.

Advertising

The Foundation expenses the costs of advertising in the period incurred.

Income Tax Status

The Foundation is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and California tax laws. The Foundation files annual federal and state information returns. The Foundation's wholly owned subsidiary, SDUSA, is not exempt from federal and state income taxes; however there was no provision for income taxes for the year ended September 30, 2015 and for the nine months ended September 30, 2014.

At September 30, 2015 the Foundation's and SDUSA's returns generally remain open for examination by taxing authorities for the three preceding years.

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 2 - ACCOUNTS RECEIVABLE**

Accounts receivable consists primarily of unconditional promises to give from donors for the construction of the National Training Center. Promises to give are recorded at their net realizable value. Substantially all promises to give are due within 1-5 years. Included in accounts receivable at September 30, 2015 and 2014 are \$3,623,036 and \$3,168,092, respectively that are restricted pledges to be used for the construction of the National Training Center.

**NOTE 3 - 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, 2015 and 2014 the Foundation had \$4,160,864 and \$1,492,584, respectively, of uninsured cash.

Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investors Protection Corporation (SIPC). At September 30, 2015 and 2014 the Foundation had \$390,500 and \$453,040 respectively, of cash and cash equivalents held in brokerage accounts.

At September 30, 2015 and 2014 there were five major donors from whom promises to give were received and represented 85% and 60%, respectively, of accounts receivable.

**NOTE 4 - INVESTMENTS**

In accordance with authoritative guidance on fair value measurements and disclosures under U.S. 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.

**NATIONAL DISASTER SEARCH DOG FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

NOTE 4 - INVESTMENTS (Continued)

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.

The following table presents information about the Foundation's investments measured at fair value as of September 30, 2015 and 2014:

	<u>Assets at Fair Value as of September 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$1,498,992	\$ 0	\$ 0	\$1,498,992
Fixed Income	280,720	0	0	280,720
U.S. Treasuries	140,622	0	0	140,622
U.S. Corporate Bonds	403,896	0	0	403,896
Mutual Funds	87,884	0	0	87,884
Exchanged Traded Funds (ETF)	418,992	0	0	418,992
	<u>\$2,831,106</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,831,106</u>

	<u>Assets at Fair Value as of September 30, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$1,377,963	\$ 0	\$ 0	\$1,377,963
Fixed Income	425,391	0	0	425,391
U.S. Treasuries	48,695	0	0	48,695
U.S. Corporate Bonds	338,535	0	0	338,535
Mutual Funds	90,793	0	0	90,793
Exchange Traded Funds (ETF's)	499,649	0	0	499,649
	<u>\$2,781,026</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,781,026</u>

The following schedule summarizes the investment income in the statement of activities for the nine months ended September 30, 2015 and 2014 :

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 79,655	\$ 52,826
Realized gains/(losses)	(18,333)	89
Unrealized gains/(losses)	(79,105)	85,675
Investment expenses	<u>(37,125)</u>	<u>(19,664)</u>
Total investment income	<u>\$ (54,908)</u>	<u>\$ 118,926</u>

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**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 3,901,019	\$ 3,901,019
Land improvements	3,521,275	3,533,396
Automobiles	185,427	185,427
Office equipment	127,182	127,541
Furniture and fixtures	63,872	60,552
Leasehold improvements	95,128	95,128
Buildings	<u>98,981</u>	<u>98,981</u>
	7,992,884	8,002,044
Less: accumulated depreciation	<u>(478,558)</u>	<u>(325,055)</u>
	7,514,326	7,676,989
Construction in progress	<u>10,643,306</u>	<u>7,396,697</u>
	<u>\$ 18,157,632</u>	<u>\$ 15,073,686</u>

Depreciation and amortization expense for the year ended September 30, 2015 and the nine months ended September 30, 2014 were \$180,695 and \$102,460, respectively.

**NOTE 6 - NOTE PAYABLE**

In February 2008, the Foundation acquired vacant land to be the future site of its 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 simple interest at 6% per annum through February 2011. The note accrues compounded interest at 6% per annum beginning March 1, 2011. Beginning on April 1, 2013 the note was renegotiated; the annual interest rate was reduced to 4.50% and annual payments of \$300,000 are due annually on December 14 starting in 2014. The principal and any unpaid accrued interest are due when the note matures in February 2019. The balance, including unpaid accrued interest, of the loan at September 30, 2015 and 2014 was \$3,253,183, and \$3,409,361, respectively.

Accrued unpaid interest on the note payable at September 30, 2015 and 2014 was \$253,183 and \$409,361, respectively. Capitalized interest at September 30, 2015 and 2014 on this note for construction in progress was \$1,323,183 and \$1,179,361, respectively.

In April 2014 the Foundation secured a revolving construction line of credit with Montecito Bank and Trust. The loan term is for a period of three years in the amount of \$3,500,000 and bears interest of 4.5% per annum. The purpose of the loan is to finance the construction in progress of the National Training Center which serves as collateral for the loan. At September 30, 2015 and 2014 the outstanding balance was \$0. The Foundation has not drawn on the loan.

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**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

The Foundation leases a postage machine under an operating lease. The lease expires November 2018. The future minimum lease payments are as follows:

For the year ended	
September 30,	
2016	\$1,764
2017	1,764
2018	1,617

The lease expense for the postage machine for the year ended September 30, 2015 and the nine months ended September 30, 2014 was \$1,764 and \$1,142, respectively.

The Foundation leases its administrative offices on a month-to-month basis. Rent expense for the administrative office for the year ended September 30, 2015 and for the nine months ended September 30, 2014 was \$34,800 and \$26,100, respectively.

**NOTE 8 - RESTRICTIONS OF NET ASSETS**

Temporarily restricted net assets at September 30, 2015 and 2014 are available for the following purposes:

	2015	2014
National Training Center	\$17,875,342	\$ 11,637,326

**NOTE 9 - RETIREMENT PLAN**

The Foundation maintains a 401(k) plan for employees and will match the employee's contributions up to 3.5% of their monthly salary.

**NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 4, 2016, the date the financial statements were available to be issued; management has determined there are no events subsequent to the date of the financial statements that require accrual or disclosure in these financial statements.