NATIONAL DISASTER SEARCH DOG FOUNDATION

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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 financial statements of National Disaster Search Dog Foundation (a nonprofit organization) as of September 30, 2018, and 2017, which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 auditors' 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 to 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 financial statements referred to above present fairly, in all material respects, the financial position of National Disaster Search Dog Foundation as of September 30, 2018, and 2017, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Hinricher & Cousino, LLP

Thousand Oaks, California
March 3, 2019

NATIONAL DISASTER SEARCH DOG FOUNDATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30, 2018		September 30, 2017	
Current assets:				
Cash and cash equivalents	$	1,341,435	$	2,419,014
Investments - board designated endowment		4,741,742		4,523,392
Accounts receivable		860,316		1,267,520
Other receivables		1,346,143		0
Prepaid expenses		64,326		34,348
Inventory		19,119		31,343
Total current assets		8,373,081		8,275,617
Fixed Assets				
Property and equipment, net of accumulated depreciation of $1,559,373 and $981,114		20,564,063		14,866,881
Construction in progress		1,285,489		8,006,603
Land		3,901,019		3,901,019
Total fixed assets		25,750,571		26,774,503
Intangible assets, net of accumulated amortization of $9,914 and $65,530		52,241		53,435
Total assets	$	34,175,893	$	35,103,555

LIABILITIES AND NET ASSETS

	2018		2017	
Current liabilities:				
Accounts payable and accrued expenses	$	723,466	$	1,532,524
Accrued salary and benefits		119,776		72,039
Agency funds		26,651		48,644
Line of credit		1,552,793		612,451
Total current liabilities		2,422,686		2,265,658
Long-term liabilities:				
Notes payable		2,741,276		4,755,258
Total long-term liabilities		2,741,276		4,755,258
Total liabilities		5,163,962		7,020,916
Net assets:				
Unrestricted		28,722,330		19,637,634
Temporarily restricted		289,601		8,445,005
		29,011,931		28,082,639
Total liabilities and net assets	$	34,175,893	$	35,103,555

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

NATIONAL DISASTER SEARCH DOG FOUNDATION
STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30,

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support, revenue and reclassification						
Contributions	$ 1,068,999	$ 388,725	$ 1,457,724	$ 821,376	$ 1,312,050	$ 2,133,426
Grants	1,749,905	0	1,749,905	1,185,022	0	1,185,022
Planned giving income	956,261	0	956,261	576,108	0	576,108
Year end appeals	183,789	0	183,789	137,459	0	137,459
In-kind donations	1,853,619	0	1,853,619	2,586,921	0	2,586,921
Investment income	211,543	0	211,543	389,772	0	389,772
Sponsorship income	97,948	0	97,948	89,767	0	89,767
Merchandising income	19,207	0	19,207	29,081	0	29,081
Other income	34,258	0	34,258	7,783	0	7,783
Gain (loss) on disposition of assets	(89,790)	0	(89,790)	0	0	0
Releases of restricted net assets	8,544,129	(8,544,129)	0	5,513,300	(5,513,300)	0
Total public support	14,629,868	(8,155,404)	6,474,464	11,336,589	(4,201,250)	7,135,339
Operating expenses						
Program services	4,438,054	0	4,438,054	4,708,279	0	4,708,279
General and administrative	516,783	0	516,783	275,021	0	275,021
Fundraising	590,335	0	590,335	516,313	0	516,313
Total expenses	5,545,172	0	5,545,172	5,499,613	0	5,499,613
Change in net assets	9,084,696	(8,155,404)	929,292	5,836,976	(4,201,250)	1,635,726
Net assets at beginning of year	19,637,634	8,445,005	28,082,639	13,800,658	12,646,255	26,446,913
Net assets at end of year	$ 28,722,330	$ 289,601	$ 29,011,931	$ 19,637,634	$ 8,445,005	$ 28,082,639

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, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 929,292	$ 1,635,726
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated stock	(36,828)	(66,426)
Depreciation and amortization	678,113	366,194
Loss on disposal	89,790	1,678
Realized (gains)/losses on investments	(31,819)	(428,642)
Unrealized (gains)/losses on investments	160,807	124,853
Accrued interest on notes payable	94,627	129,155
(Increase) decrease in:		
Accounts receivable	407,204	495,376
Prepaid expenses	(29,978)	(7,506)
Inventory	12,224	(15,305)
Increase (decrease) in:		
Accounts payable and accrued expenses	(809,058)	93,205
Accrued salary and benefits	47,737	19,732
Agency funds	(21,993)	(20,741)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,490,118	2,327,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to construction in progress	(579,275)	(3,836,148)
Purchases of intangible assets	(4,348)	(12,976)
Purchases of property and equipment	(505,298)	(189,310)
Purchases of investments	(1,993,875)	(4,839,549)
Proceeds from sales of investments	1,683,366	4,185,832
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,399,430)	(4,692,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	940,342	612,451
Proceeds from notes payable	0	2,535,809
Principal payments on notes payable	(2,108,609)	(1,000,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,168,267)	2,148,260
Total increase (decrease) in cash and cash equivalents	(1,077,579)	(216,592)
Cash and cash equivalents at beginning of year	2,419,014	2,635,606
Cash and cash equivalents at end of year	$ 1,341,435	$ 2,419,014
Supplemental information:		
Interest paid	$ 95,442	$ 118,868
Income taxes paid	$ 0	$ 0

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, 2018 AND 2017

	2018				2017			
	Program Services	Management & General	Fundraising	Total	Progam Services	Management & General	Fundraising	Total
Salaries and related	$ 1,027,965	$ 320,630	$ 500,726	$ 1,849,321	$ 907,660	$ 218,518	$ 437,306	$1,563,484
Accounting and legal	0	14,354	0	14,354	0	16,362	0	16,362
Auto and travel	15,367	2,321	256	17,944	13,243	310	494	14,047
Insurance	86,327	2,272	2,272	90,871	52,311	1,377	1,377	55,065
Repairs and maintenance	44,595	1,172	1,172	46,939	25,268	654	654	26,576
Supplies	73,270	9,326	285	82,881	89,093	380	380	89,853
Utilities	44,160	1,102	1,102	46,364	43,039	1,133	1,133	45,305
Telephone	26,594	690	690	27,974	31,172	806	806	32,784
Computer	46,780	1,231	1,231	49,242	44,350	1,167	1,167	46,684
Marketing	94,628	2,438	22,437	119,503	60,967	2,527	24,279	87,773
Office	38,133	8,211	8,669	55,013	12,487	5,350	5,175	23,012
Shipping and postage	5,196	136	136	5,468	7,982	209	229	8,420
Interest	0	117,273	0	117,273	0	0	0	0
Trainer fees	811,200	0	0	811,200	270,400	0	0	270,400
Training sites	998,400	0	0	998,400	2,302,000	0	0	2,302,000
Handler costs	197,509	0	0	197,509	153,325	0	0	153,325
Equipment rental	7,612	200	200	8,012	8,865	233	233	9,331
Taxes and license	(3,045)	(80)	(80)	(3,205)	420	11	11	442
Canine recruiting and training	206,967	0	0	206,967	176,890	0	0	176,890
Lifetime care program	13,863	0	0	13,863	5,705	0	0	5,705
Events	833	1,509	7,835	10,177	3,640	1683	15,909	21,232
In-kind program expenses	22,954	604	604	24,162	16,785	442	441	17,668
Outside services	23,743	467	467	24,677	134,260	380	380	135,020
Professional fundraising	0	11,378	25,381	36,759	0	3,251	17,451	20,702
Merchant fees and discounts	0	15,391	0	15,391	0	11,339	0	11,339
Total operating expenses before depreciation & amortization	3,783,051	510,625	573,383	4,867,059	4,359,862	266,132	507,425	5,133,419
Depreciation & Amortization	655,003	6,158	16,952	678,113	348,417	8,889	8,888	366,194
Total expenses and Depreciation & amortization	$ 4,438,054	$ 516,783	$ 590,335	$ 5,545,172	$4,708,279	$ 275,021	$ 516,313	$5,499,613

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

National Disaster Search Dog Foundation (the "Foundation"), a non-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 also maintains an Endowment Fund (See note 11) which is included in Investments on the Statement of Financial Position (See note 5). This non-operating income Fund’s goal is to provide at minimum 25% of current operating income 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.

Financial Statement Presentation

The Foundation’s 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and therefore has made no provision for federal or state income taxes in the accompanying financial statements. In addition, the Internal Revenue Service has determined that the Foundation is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended September 30, 2018, and 2017. At September 30, 2018, the Foundation’s returns generally remain open for examination by taxing authorities for the three preceding years.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2018 and 2017, consists primarily of bequests from estates totaling $483,635, and $0, respectively, and unconditional promises to give from donors for the construction of the National Training Center totaling $346,164 and $1,041,975, respectively. Bequests are recorded as revenue and receivable when the Foundation is notified that the donor’s estate names the Foundation as a beneficiary.

NOTE 2 - ACCOUNTS RECEIVABLE (Continued)

Unconditional promises to give are recorded at their net realizable value. Included in accounts receivable at September 30, 2018, and 2017, are $346,164 and $1,041,975, respectively that are restricted pledges to be used for the construction of the National Training Center. At September 30, 2018, substantially all pledges are due within one year.

NOTE 3 - OTHER RECEIVABLES

At September 30, 2018, other receivables consist of management's estimate of proceeds due from the Foundation's insurance carrier for the remaining costs of repairs and construction of property and equipment damaged or lost from the "Thomas Fire" that affected Ventura County, California in December 2017. At September 30, 2018, the amount expected from the insurance carrier was $1,346,143. As of the issued date of these financial statements, March 3, 2019, the Foundation has received $635,243.

For the year ended September 30, 2018, the Foundation did not recognize a gain or loss as a result of the damaged and lost property from the "Thomas Fire" because management expects to receive from the insurance carrier the necessary funds to fully repair and rebuild the lost property. The Foundation will recognize a gain or loss, if any, once the insurance carrier has completed its funding obligation under the insurance contract.

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, 2018, and 2017, the Foundation had $796,963 and $1,167,561, 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, 2018, and 2017, the Foundation had $571,681 and $1,129,120 respectively, of cash and cash equivalents held in brokerage accounts.

At September 30, 2018, and 2017, there was one donor with an outstanding unconditional promise to give (See Note 2) of $300,000 and $800,000, respectively, representing 87% and 64%, respectively of unconditional promises receivable. Additionally, at September 30, 2018, there was $483,635 due from three estates, representing 56% of accounts receivables.

NOTE 5 - INVESTMENTS

The Foundation's investments consist of a board designated endowment from unrestricted resources that the Board of Directors has chosen to hold as a general endowment fund (the "Fund"). See note 11 for additional information.

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.

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, 2018, and 2017:

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Equities	$2,775,404	$ 0	$ 0	$2,775,404
Fixed Income	146,210	0	0	146,210
U.S. Treasuries	245,365	0	0	245,365
U.S. Corporate Bonds	574,848	0	0	574,848
Mutual Funds	481,858	0	0	481,858
Exchanged Traded Funds (ETF)	359,375	0	0	359,375
Money Market	158,682	0	0	158,682
	$4,741,742	$ 0	$ 0	$4,741,742

NOTE 5 - INVESTMENTS (Continued)

	Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Equities	$2,704,856	$ 0	$ 0	$2,704,856
Fixed Income	163,437	0	0	163,437
U.S. Treasuries	243,283	0	0	243,283
U.S. Corporate Bonds	697,030	0	0	697,030
Mutual Funds	87,111	0	0	87,111
Exchange Traded Funds (ETF)	344,195	0	0	344,195
Money Market	283,480	0	0	283,480
	$4,523,392	$ 0	$ 0	$4,523,392

The following schedule summarizes the investment income in the statement of activities for the years ended September 30, 2018, and 2017:

	2018	2017
Interest and dividends	$ 126,399	$ 121,424
Realized gains/(losses)	(31,819)	428,642
Unrealized gains/(losses)	160,807	(124,853)
Investment expenses	(43,844)	(35,441)
Total investment income	$211,543	$ 389,772

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2018, and 2017:

	2018	2017
Buildings	$ 15,871,719	$ 11,274,738
Land improvements	5,062,053	3,533,132
Automobiles	245,879	185,427
Office equipment	516,902	505,115
Equipment	173,120	128,328
Furniture and fixtures	253,763	221,255
	22,123,436	15,847,995
Less: accumulated depreciation	(1,559,373)	(981,114)
	20,564,063	14,866,881
Construction in progress	1,285,489	8,006,603
Land	3,901,019	3,901,019
	$ 25,750,571	$ 26,774,503

NOTE 6 - PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense for the years ended September 30, 2018, and 2017, were $678,113 and $366,194, respectively.

NOTE 7 - LINE OF CREDIT

On May 16, 2017, the Foundation secured a line of credit with the Bank for $2,600,000 for the purpose of financing the construction of the National Training Center. The line of credit bears variable interest of the prime rate but will never be less than 2.50% per annum. The required monthly payments consist only of unpaid accrued interest. The entire balance of unpaid principal and accrued interest is due on May 16, 2022, when the line of credit matures. The loan is secured by cash and investments (See Notes 5 and 11) held and managed by the Bank.

The maximum amount available is equal to 60% of the aggregate available account balances. The Bank may change the requirements of collateral and the maximum available credit at any time. If the outstanding line of credit exceeds 60% of available account balances the Foundation has one business day to increase the value in the account balances or pay down the line of credit to an amount equal to 60% of available account balances. Otherwise the line of credit will be deemed to be in default. At September 30, 2018, and 2017, the outstanding balance was $1,552,793, and $612,451, respectively. Available credit at September 30, 2018, was $1,047,207.

NOTE 8 - 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. 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% simple interest per annum with annual payments of $300,000 due on December 14 starting in 2014. The principal and any unpaid accrued interest are due when the note matures in February 2019. Management is in final negotiations to extend the term of the note for another ten years and management fully expects the extension to be approved. Therefore, the note payable remains presented as long-term liabilities on the Statements of Financial Position.

The balance, including unpaid accrued interest, of the loan at September 30, 2018, and 2017, was $2,741,276, and $2,919,653, respectively. Accrued unpaid interest on the note payable at September 30, 2018, and 2017, was $94,627 and $100,784, respectively.

NOTE 8 - NOTES PAYABLE (Continued)

In April 2014, the Foundation secured a construction loan with Montecito Bank and Trust (the "Bank") for $5,500,000 for the purpose of financing the construction of the National Training Center. The loan bears interest of 4.50% per annum until May 10, 2017. After May 10, 2017 the interest rate changes to a variable rate of the prime rate plus 1.0% per annum, but will never be less than 4.50% per annum. The required monthly payments consist only of unpaid accrued interest. The entire balance of unpaid principal and accrued interest is due on April 10, 2020 when the loan matures.

The loan is secured by a deed of trust on the National Training Center as well as the Foundation's fixtures, personal property, equipment, and intangibles. Additionally, the Foundation assigned its pledges receivables (See Note 2) as security interest to the Bank. Unless the loan is in default the Foundation retains the rights and benefits arising out of the pledges receivable. At September 30, 2018, and 2017, the outstanding balance was $0, and $1,835,605, respectively. The construction loan was paid off and closed during the year ended September 30, 2018.

Capitalized interest at September 30, 2018, and 2017, on the notes payable was $0 and $1,656,202, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Foundation entered into a three-year computer maintenance contract that expires in June 2019. Required monthly payments depend on the number of workstations in use. At the effective date of the contract the required monthly payments were $3,190; it is expected that the monthly payments will be at least that through the term of the contract.

NOTE 10 - 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, 2018, and 2017, the Foundation's matching contributions were $25,281 and $20,918, respectively; however, the Foundation did not make a profit sharing contribution for the years then ended.

NOTE 11 - BOARD DESIGNATED ENDOWMENT FUND

The purpose of the Endowment Fund (the "Fund") is to maintain a pool of assets which will generate income in perpetuity. The Board, as stewards of the Endowment, recognizes the challenges of a) preserving the principal in current (inflation adjusted) dollars and b) providing for increasing income from the Endowment over time.

Return objectives and risk parameters

The overall objective in the management of the Endowment is to conserve its value in real dollars, net of annual contributions and distributions, by investing in a diversified portfolio of equity, alternatives, fixed income and cash equivalent securities. Specifically, the return objective is to achieve a total return equal to or exceeding the Consumer Price Index (CPI) plus five-percent (5%) net of fees.

Strategies employed for achieving objectives

The Board has determined that the assets of the Fund will be professionally managed in a moderately conservative manner. 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:

	Lower Limit	Upper Limit
Equities	45%	70%
Liquid Real Estate	0%	10%
Fixed Income	20%	45%
Cash Instruments	0%	20%

Spending policy and how investment objectives relate to spending policy

All distributions from the Fund must be drawn from annual investment total return, not to exceed 5% of the portfolio value. Any distribution above 5% of the portfolio value requires approval by the Board. Distributions will be based on fiscal year ended September 30.

NOTE 11 - BOARD DESIGNATED ENDOWMENT FUND (Continued)

Endowment composition

Changes in board-designated endowment net assets are as follows:

	2018	2017
Balance, beginning of year	$ 4,523,392	$ 3,449,460
Investment income	255,387	425,213
Transfers to board designated endowment fund	6,807	634,160
Investment fees	(43,844)	(35,441)
	$ 4,741,742	$ 4,523,392

NOTE 12 - RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets at September 30, 2018, and 2017, are available for the following purposes:

	2018	2017
National Training Center	$ 256,489	$ 8,445,005
Lifetime Care Program	33,112	0
	$ 289,601	$ 8,445,005

NOTE 13 - EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 3, 2019, 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.