Dogs For Diabetics

Incorporated

Financial Statements

For the year ended
June 30, 2019
With Independent Auditors' Report Thereon

Management Discussion & Analysis

As Prepared by Management

Since its inception in 2004, Dogs for Diabetics, Inc. (D4D) has been courageously creating life-saving partnerships that inspire, transform, and empower diabetics to thrive. As the first and a leader in developing Medical-Alert Service Dogs, D4D management has developed, implemented and maintains industry-leading, ethical standards for its innovative scent-trained dogs, who can detect changes in blood sugar 20-30 minutes before the newest technology. To truly serve our community, D4D creates these powerful partnerships and supports these teams for life, **at no cost to its clients**.

The no-cost service model is representative of the most respected accredited service dog organizations in the world, such as Guide Dogs for the Blind (GDB) and Canine Companions for Independence (CCI). Like D4D, they value life, innovation, and family in service to their communities. D4D is honored to partner with such organizations who generously donate dogs to its programs, which is essential to fulfil its mission.

Attesting to the integrity of its operations, D4D is not only accredited by Assistance Dogs International (ADI) but its Founder and President, Mark Ruefenacht, serves on ADI's Standards Committee. Mr. Ruefenacht's professional background involves the development and implementation of quality standards in forensics and measurement with the National Institute of Standards and Technology (NIST). His extensive knowledge and experience provide the basis of all D4D programs, training protocols, and measurable outcomes. Additionally, D4D continues to evolve its own standards, as we believe the public deserves to be served with ethically trained service dogs. D4D's management takes its mission of training dogs to save lives, seriously - with the utmost responsibility.

Furthermore, we continue to strengthen D4D's foundation by strategically and thoughtfully building its team, expanding initiatives, and advocating for the standards and ethics for which it is trusted. Every step and success are made possible by its generous community of supporters.

As D4D's management looks forward, it gratefully acknowledges its community and pledges to continue its efforts to positively impact the future of Type 1 Diabetics, the disease, and the service dog industry as a whole. It is only through this support that it is able to continue its growth and transformation.

Financial Insight

D4D does not charge for its dogs or lifetime of support services, the organization relies solely on the generous contributions of its community, which consist of individual supporters, foundations, and/or corporations with more than 86% of funding directly supporting its life-saving programs.

D4D's financial capacity has grown over the years with revenues of only $14,000 in its initial year of operations, reaching a high of nearly $700,000 during fiscal year 2017. The continued growth in revenues has allowed D4D to increase its impact, expand its reach, and meet the ever-evolving needs of its community.

Over its 15-year history, D4D has generated strategic deficits in 6 years, ranging from ($6,200) in fiscal year 2006 to ($84,299) in fiscal year 2018. These deficits addressed thoughtfully planned actions to meet the demands of its increasing clientele as well as the future initiatives of the organization to more fully respond to the ever-evolving needs of its community. Each deficit was addressed prior to the conclusion of that fiscal year through its rigorous monthly financial monitoring.

(continued)

Management Discussion & Analysis *(continued)*

D4D has always attempted to conservatively project revenues and aggressively project expenses. In its fiscal year ending June 30, 2019, D4D was implementing major strategic initiatives to increase dog training and support more clients than ever before. In this year, these initiatives included the move to its new training facility, which tripled its training space; hiring and training of new professional staff; providing additional client support services, as well as increasing volunteer participation and outreach. All while also enhancing its marketing strategy to support a major marketing campaign in partnership with corporate sponsor.

Circumstances outside the control of D4D caused the prospective marketing campaign to be canceled late in the fiscal year. D4D had already expended funds to increase its program capacity, as well as its marketing abilities, which included a new website. Unfortunately, the costs for these program enhancements exceeded projections. The impact resulted in a shortfall providing only $576,857 in total revenues and an increase in expenses to a total of $786,044, which led to the reported loss of ($209,187).

D4D's management immediately began to address the issues of the prospective increased budget deficit from its budget projections when recognized in March of 2019. After the board established a formal finance committee to develop plans for managing and controlling cash flow needs along with improving budget projections, D4D then responded by reducing cash outlays by approximately $20,000. Additionally, budget projections were prepared for the fiscal year ending June 2020 following the finance committee's requirement of preparing and implementing a balanced cash budget using revenues to approximate the levels achieved in fiscal year 2015 and fiscal year 2016, not to exceed $588,000.

The budget for the year ending June 30, 2020 was put in place projecting cash revenues and expenses being balanced in order to prevent a cash operating loss. Non-cash amortization and depreciation expenses are projected to generate an operating deficit for the fiscal year.

The projected monthly cash flows show positive cash balances for every month throughout the fiscal year 2020. As actual month-end cash balances are dependent on the variable flow of donations and to assure that adequate funds would be available to bridge any funding gaps, D4D solicited and received a low-cost bridge loan of $50,000 in December 2019. This was done to provide contingency funding, as our budget projections do not dip into the utilization of these funds.

As of January 31, 2020, D4D’s actual performance to its budgeted revenue and expense projections are largely on target, showing a cash balance of $173,000, only $6,000 under its projection.

An important fact regarding D4D’s financial management is that it has remained current on all its obligations at all times. It has also continually maintained positive cash balances, exceeding its monthly expenses, as reported in the previous paragraph. D4D’s management also projects continued positive financial performance for its next fiscal year-end in June 2021. It will use these tools to deliver its services while controlling costs and seeking continued support from its community and other supporters.

D4D’s management acknowledges that the loss reported in these audited statements is significant. It has resulted in a reduction of its financial resources. But it has not impacted its ability to fulfill its mission to transform, empower, and impact the communities it serves.

With the collective support of its volunteers, clients and their families; its many individual donors, foundations and corporate sponsors, D4D’s management is confident that it will continue to deliver its life-saving and life-changing services to existing and future clients for years to come.

(A California Not-for-Profit Corporation)

Contents

Dogs for Diabetics
1300 Willow Pass Court, Suite B
Concord, California 94520
925-246-5785
General Inquiries: info@dogs4diabetics.com
Web Site Address: www.dogs4diabetics.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Dogs For Diabetics, Inc.

We have audited the accompanying financial statements of Dogs For Diabetics, Inc. (a California nonprofit organization) which comprise the statement of financial position as of June 30, 2019 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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.

Auditor's 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 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 evaluating 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 Dogs4Diabetics as of June 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
The accompanying financial statements have been prepared assuming that Dogs For Diabetics, Inc. will continue as a going concern. As discussed in Note 12 of the financial statements, Dogs For Diabetics, Inc. has suffered recurring losses from operations, conditions which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements to do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters
We have previously audited Dogs For Diabetics, Inc.'s June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report December 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Regalia & Associates

Danville, California
February 21, 2020

Statements of Financial Position
June 30, 2019 and 2018

ASSETS

		2019		2018
Current assets:				
Cash and cash equivalents	$	164,858	$	366,499
Prepaid expenses		-		5,763
Accounts receivable		10,000		7,200
Total current assets		174,858		379,462
Noncurrent assets:				
Prepaid expenses		750		1,050
Security deposits		-		1,977
Property and equipment, net		433,036		42,650
Right of use asset - premises		543,454		-
Total noncurrent assets		977,240		45,677
	$	1,152,098	$	425,139

LIABILITIES AND NET ASSETS

		2019		2018
Current liabilities:				
Accounts payable and accrued liabilities	$	30,064	$	11,872
Lease payable - current portion		58,078		-
Total current liabilities		88,142		11,872
Noncurrent liabilities:				
Lease payable - noncurrent portion		504,876		-
Loan payable		350,000		-
Total noncurrent liabilities		854,876		-
Total liabilities		943,018		11,872
Net assets:				
Without donor restrictions		204,080		413,267
With donor restrictions		5,000		-
Total net assets		209,080		413,267
	$	1,152,098	$	425,139

Statements of Activities and Changes in Net Assets
June 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenue and support:		
Earned revenue:		
Program service fees	**$ 985**	$ 2,595
Interest income	**400**	267
Other income	**1,008**	552
Total earned revenue	**2,393**	3,414
Grants and contributions:		
Individual and business donations	**311,411**	315,176
Foundation grants	**174,697**	118,410
Corporate donations	**23,574**	58,258
In-kind donations	**64,782**	108,594
Total grants and contributions	**574,464**	600,438
Total revenue and support	**576,857**	603,852
Expenses:		
Program services	**637,209**	574,443
Development	**72,201**	83,189
General and administrative	**76,634**	30,519
Total expenses	**786,044**	688,151
Decrease in net assets without donor restrictions	**(209,187)**	(84,299)
Changes in net assets with donor restrictions:		
Foundation grants	**5,000**	-
Increase in net assets with donor restrictions	**5,000**	-
Decrease in net assets	**(204,187)**	(84,299)
Net assets at beginning of year	**413,267**	497,566
Net assets at end of year	**$ 209,080**	$ 413,267

Statements of Cash Flows
June 30, 2019 and 2018

	2019	2018
Operating activities:		
Decrease in net assets	**$ (204,187)**	$ (84,299)
Adjustments to reconcile to cash provided by (used for)		
operating activities:		
Depreciation	**22,663**	8,295
Changes in:		
Prepaid expenses	**6,063**	(5,463)
Security deposits	**1,977**	(1,977)
Accounts receivable	**(2,800)**	(7,200)
Accounts payable and accrued liabilities	**18,192**	2,465
Cash used for operating activities	**(158,092)**	(88,179)
Investing activities:		
Capitalization of right of use asset	**(543,454)**	-
Acquisition of property and equipment	**(413,049)**	(46,628)
Cash used for investing activities	**(956,503)**	(46,628)
Financing activities:		
Establishment of lease payable	**562,954**	-
Proceeds from loan payable	**350,000**	-
Cash provided by financing activities	**912,954**	-
Decrease in cash and cash equivalents	**(201,641)**	(134,807)
Cash and cash equivalents at beginning of year	**366,499**	501,306
Cash and cash equivalents at end of year	**$ 164,858**	$ 366,499
Additional cash flow information:		
State registration fees paid	**$ 75**	$ 75
Interest paid	**-**	-

Statement of Functional Expenses

Year Ended June 30, 2019

(with Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services	Development	General and Administrative	Totals June 30, 2019	Totals June 30, 2018
Depreciation	$ 19,264	$ -	$ 3,399	**22,663**	$ 8,295
Dog training and materials	37,478	-	-	**37,478**	34,118
Facility expenses	6,563	-	-	**6,563**	3,255
Information Technology	15,319	-	2,703	**18,022**	7,703
In-kind occupancy and supplies	25,542	-	3,240	**28,782**	8,376
Insurance	10,093	-	1,781	**11,874**	9,465
Maintenance	802	-	142	**944**	5,467
Miscellaneous	7,857	-	1,386	**9,243**	7,128
Occupancy	61,200	-	10,800	**72,000**	44,720
Postage and shipping	864	590	-	**1,454**	1,939
Printing	3,891	-	687	**4,578**	3,831
Professional fees	67,420	24,588	8,880	**100,888**	104,596
Promotional and events	7,270	11,692	-	**18,962**	25,425
Salaries, taxes and benefits	351,970	35,331	39,791	**427,092**	394,542
Telephone and internet	9,480	-	1,673	**11,153**	8,996
Travel	12,196	-	2,152	**14,348**	20,295
Totals	$ 637,209	$ 72,201	$ 76,634	**$ 786,044**	$ 688,151

1. Organization

Dogs For Diabetics, Inc. (D4D) is an innovative non-profit organization that provides quality medical alert assistance dogs to insulin-dependent diabetics through a program of training, placement, and follow-up services. As an additional element of its mission, D4D has developed, and now promotes and advocates standards of quality, performance, support and disclosure for all medical assistance dog teams.

D4D assistance dogs are specifically trained to identify, and more importantly, act upon the subtle scent changes that hypoglycemia (low blood glucose) creates in body chemistry, changes undetectable to their human companions. Specifically, D4D provides the following services:

- Training and certifying dogs for hypoglycemia (low blood glucose) medical alert.
- Studying and developing training protocols for the D4D program.
- Qualifying diabetic youth and adults for placement and service of our dogs.
- Training diabetic youth and adults for the proper use and care of our dogs.
- Conducting placement follow-up services.
- Educating businesses, organizations, and the public to the uses, rights, and standards appropriate for all accredited medical alert dogs.

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of D4D have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to D4D's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents – Cash and cash equivalents include all monies in FDIC-insured bank accounts and highly liquid investments with maturity dates of less than three months. Cash equivalents include short-term interest-bearing investments in money market and liquid asset accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Concentrations of Credit Risk – Financial instruments that potentially subject D4D to concentrations of credit risk consist principally of cash and cash equivalents and deposits. D4D maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. D4D manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

2. Summary of Significant Accounting Policies (*continued*)

Concentrations of Credit Risk (*continued*)
To date, D4D has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of D4D's mission.

Receivables and Credit Policies – D4D determined that no allowance for doubtful uncollectible accounts receivable is needed based on historical experience, an assessment of economic conditions, and a review of subsequent collections. It is the policy of the organization to periodically assess receivables to determine proper carrying value.

Accounts Receivable – D4D records receivables that are expected to be collected within one year at net realizable value. When material, receivables expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

In subsequent years, amortization of the discounts (when applicable) will be included in contribution revenue on the statement of activities and changes in net assets. The allowance for uncollectible receivables is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible.

Comparative Financial Information – The accompanying financial statements include certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

In-Kind Contributions – In-kind contributions are reflected at the fair value of the contribution received in accordance with *ASC 958.605.30-11*. The contributions of services, equipment, and other materials are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributed Services – Volunteers donate a substantial amount of time to D4D. While significant in value, these services are not recorded in the financial statements since they are not susceptible to objective measurement or valuation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (*continued*)

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as salaries and wages, occupancy, and insurance) have been allocated based on time and effort using D4D's payroll allocations. Other expenses (such as professional services and other direct costs) have been allocated in accordance with the specific services received from vendors.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). D4D groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2
Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

2. Summary of Significant Accounting Policies *(continued)*

Reclassifications – Certain prior year amounts have been reclassified to conform to fiscal year 2019 presentation. These changes had no impact on previously reported changes in net assets.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve or for any other board-designated purpose, though it has not opted to do so as of June 30, 2019.

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 can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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.

Revenue and Revenue Recognition - Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an “exchange transaction”) is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Property and Equipment – D4D’s policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities.

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment *(continued)*
Costs of maintenance and repairs are expensed currently. D4D reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. D4D has determined that no long-lived assets were impaired during the years ended June 30, 2019 and 2018.

Income Taxes – D4D is organized as California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. D4D is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. D4D is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) because it had no unrelated business taxable income for the year ended June 30, 2019.

D4D has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that D4D continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

Recent and Relevant Accounting Pronouncements – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. D4D has adjusted the presentation of these statements accordingly.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) Accounting for Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by *ASU No. 2018-01*, *ASU No. 2018-10*, and *ASU No. 2018-11*. This new pronouncement is effective for fiscal years beginning after December 15, 2020, but D4D has elected early implementation.

The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of activities and changes in net assets.

(continued)

2. Summary of Significant Accounting Policies (*continued*)

Recent and Relevant Accounting Pronouncements (*continued*)
In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of February 21, 2020 (the date of the Independent Auditors' Report), D4D management has made this evaluation and has determined that D4D has the ability to continue as a going concern.

3. Cash and Cash Equivalents

Cash and cash equivalents of $164,858 and $366,499 at June 30, 2019 and 2018, respectively, consist of FDIC-insured funds in local checking and money market accounts that have a maturity date of 90 days or less.

4. Liquidity

D4D regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. D4D has various sources of liquidity at its disposal, including cash and cash equivalents and other sources (including the future collection of receivables).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, D4D considers all expenditures related to its ongoing activities of providing quality medical alert assistance dogs to insulin-dependent diabetics as well as the conduct of services undertaken to support those activities to be general expenditures.

As of June 30, 2019, the following table shows the total financial assets held by D4D and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 164,858
Accounts receivable	10,000
Less: amounts not available to be used within one year:	
Net assets with donor restrictions for programs	(5,000)
Financial assets available to meet general expenditures over the next twelve months	$ 169,858

D4D's goal is generally to maintain financial assets to meet or exceed 90 days of operating expenses, which amount to approximately $140,000 on average.

Notes to Financial Statements
June 30, 2019

5. Property and Equipment

Property and equipment consist of the following at June 30:

		2019		2018
Computers	$	**3,859**	$	3,859
Furniture and equipment		**52,761**		52,761
Tenant improvements		**394,156**		44,156
Website development		**71,781**		8,732
Subtotal		**522,557**		109,508
Less: accumulated depreciation		**(89,521)**		(66,858)
Property and equipment, net	$	**433,036**	$	42,650

Depreciation expense amounted to $22,663 and $8,295 for the years ended June 30, 2019 and 2018, respectively.

6. Right of Use Asset and Leasehold Improvements

D4D leases its training center and corporate office facility in Concord, California from Heusser Neweigh LCC ("Heusser Neweigh"), a real estate holding company which is majority owned by D4D's President and Founder Mark Ruefenacht (see Note 7). D4D occupies this space under a rental agreement that is below the fair market value (see Note 8).

D4D has occupied the space since January 2018 under an agreement that intends to allow D4D occupancy of the building for a period no shorter than ten years. The monthly rental payment as of June 30, 2019 is $6,500, with increases to be negotiated annually. D4D is responsible for its own share of business park association charges, as well as its own insurance, maintenance, and operating expenses.

In accordance with *ASU 2016-02, Leases*, D4D is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a "Right of Use" asset and a corresponding lease liability. Accordingly, D4D has recorded a total lease liability in the amount of $562,954 (split between current amount of $58,078 and noncurrent amount of $504,876) and a corresponding right of use asset for the premises in the amount of $543,454. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of June 30, 2019 was 5.0%.

Rent expense amounted to $72,000 and $44,720 for the years ended June 30, 2019 and 2018, respectively, and is included in occupancy expense on the statement of functional expenses. At June 30, 2019, minimum future lease payments for operating leases with terms of one year or more are as follows: Year ending June 30, 2020: $78,000; Year ending June 30, 2021: $78,000; Year ending June 30, 2022: $78,000; Year ending June 30, 2023: $78,000; Year ending June 30, 2024: $78,000; and thereafter: $273,000.

7. Loan Payable and Related Party Transactions

In March 2019, Heusser Neweigh, a real estate holding company majority-owned by D4D's President and Founder Mark Ruefenacht, completed substantial improvements (including but not limited to: training room finishes, warehouse door replacement, dog area plumbing, and training room HVAC) to the facility in order to best support the specialized needs of D4D. At June 30, 2019, D4D has reflected tenant improvements of $350,000 on its statement of financial position, and a corresponding $350,000 long-term loan payable to Heusser Neweigh. The loan, effective as of March 31, 2019, is payable over ten years, and does not bear interest for the first three years. After three years, interest will accrue at a rate not to exceed 5.0% per annum. Due to budgetary and cash flow concerns, Heusser Neweigh has allowed for periodic installments of principal and interest to be negotiated after D4D has developed sufficient liquidity and financial stability to cover its regular operating expenses.

8. In-Kind Contributions and Related Party Transactions

During the years ended June 30, 2019 and 2018, D4D was the recipient of a substantial amount of in-kind contributions.

D4D occupies its facility in Concord under a rental agreement that is below the fair market value. Management has estimated the difference between the fair value and the actual payment due to its landlord, Heusser Neweigh, to be $21,600 per year for the year ended June 30, 2019. There was no in-kind contribution for the donated use of space estimated for the year ended June 30, 2018.

D4D is also the recipient of substantial services donated by Ralph Hendrix, who has served as both the Executive and Finance Director for D4D, and is also a Board Member. Management has estimated the value of these services to be $36,000 and $78,000 for the years ended June 30, 2019 and 2018, respectively.

D4D also receives various dog food, supplies, and training equipment. These in-kind contributions amounted to $7,182 and $30,594 ($22,218 of which has been capitalized with furniture and equipment on the statements of financial position, and $8,376 of which has been reflected as in-kind expense on the statement of functional expenses) for the years ended June 30, 2019 and 2018, respectively.

9. Retirement Plan

Effective September 21, 2018, D4D offers employees the opportunity for participation in a salary reduction retirement plan qualified under Internal Revenue Code Section 403(b). D4D's employer contributions to the plan amounted to $10,034 for the year ended June 30, 2019. There were no contributions to the retirement plan during the year ended June 30, 2018.

10. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future projects, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate D4D to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond D4D's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the various granting agencies. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements.

11. Net Assets

Net Assets without Donor Restrictions
Net assets without donor restrictions of $204,080 and $413,267 at June 30, 2019 and 2018, respectively, represent the cumulative operating surpluses since the organization's inception.

Net Assets with Donor Restrictions
D4D recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expired. Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Restricted for Buddy Dog program in FY20	**$ 5,000**	$ -
Total net assets with donor restrictions	**$ 5,000**	$ -

During the year ended June 30, 2019, additions to net assets with donor restrictions amounted to $5,000. There were no additions to net assets during the year ended June 30, 2018.

12. Operating Deficits and Going Concern

Operating Deficits
D4D has incurred recurring operating deficits and cash flow shortfalls during the last two fiscal years. Specifically, D4D reflected losses from operations of ($209,187) and ($84,299) for the years ended June 30, 2019 and 2018, respectively, and net assets without donor restrictions (equity) have decreased from $497,566 at June 30, 2017 to $204,080 at June 30, 2019 (of which depreciation expense accounted for $30,958 of the total decrease). The organization's ability to continue as a going concern depends on its being able to satisfy ongoing cash flow requirements, which include fixed and various overhead expenses. The two largest components include payroll and professional fees.

(continued)

Notes to Financial Statements
June 30, 2019

12. Operating Deficits and Going Concern (*continued*)

Revenue Concentration
D4D is subject to funding levels which vary based on factors beyond D4D's control, such as generosity of donors and general economic conditions. Funding from contributed income represented 99.6% of the organization's total revenue and support for the year ended June 30, 2019.

During the year ended June 30, 2019, a major marketing campaign was solicited from a significant longtime contributor to D4D. In anticipation of this campaign, D4D forged ahead with building a new website (reflected under "website development" in property and equipment in Note 5) to enhance its social media presence. The website development required significant expenditures, for which D4D had anticipated $75,000 in contributed funding. Unfortunately, the longtime contributor to D4D was unable to move forward with this campaign funding, resulting in additional unexpected deficit during the year ended June 30, 2019.

Management's Plans
Beginning in March 2019, D4D's Board of Directors and management have focused their attention on reducing D4D's overhead cost structure. The Board of Directors established a formal finance committee in March 2019 to direct immediate adjustments to its cash flow needs as well as guide the development of the budget for the year ending June 30, 2020 and to oversee financial performance. Management's actions resulted in cash flow reductions of $19,500 through the year ended June 30, 2019. Management's plans for preparation of the budget for the year ending June 30, 2020 included staff cuts, vendor downsizing, and the procurement of a bridge loan.

Management has prepared an operating budget which projects total revenues and expenses estimated at $572,500 and $639,359, respectively, for the year ending June 30, 2020. This budget reflects a 1.0% year-over-year decrease in revenue, and a 19.0% year-over-year decrease in operating expenses. These forecast figures result in an estimated net loss of ($66,859), an improvement from the year ended June 30, 2019. The projected net loss rises to -$0- after adding back estimated depreciation expense $66,859 for the year ending June 30, 2020.

Management believes these factors, among others, will contribute toward achieving and maintaining sufficient cash flows to cover operating expenditures and to satisfy its payroll and program-related obligations. The attainment of positive cash flows is dependent upon the successful implementation of management's cost reduction programs and revenue targets.

13. Subsequent Events

In compliance with *ASC 855, Subsequent Events*, D4D has evaluated subsequent events through February 21, 2020, the date the financial statements were available to be issued and, and in the opinion of management, there are no subsequent events which need to be disclosed.