

BROTHER WOLF ANIMAL RESCUE, INC.

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022



CORLISS &
SOLOMON
PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Brother Wolf Animal Rescue, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brother Wolf Animal Rescue, Inc.
Asheville, North Carolina

Opinion

We have audited the accompanying financial statements of Brother Wolf Animal Rescue, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related disclosures to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brother Wolf Animal Rescue as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Brother Wolf Animal Rescue and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Brother Wolf Animal Rescue's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Brother Wolf Animal Rescue's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Brother Wolf Animal Rescue's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Carliss & Solomon, PLLC

Asheville, North Carolina
October 2, 2023

Brother Wolf Animal Rescue, Inc.

Statement of Financial Position

As of December 31, 2022

Assets

Current Assets

Cash and Cash Equivalents	\$	1,089,962
Investments		1,707,220
Account Receivable		380,060
Inventory		40,530
Prepaid Expenses		7,088
Other Assets		8,729
Total Current Assets		<u>3,233,589</u>

Long-Term Assets

Right of Use Asset		422,454
Property and Equipment, Net		108,858
Total Long-Term Assets		<u>531,312</u>

Total Assets

\$ 3,764,901

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$	148,306
Accrued Wages and Payroll Liabilities		43,141
Accrued Vacation		19,594
Operating Lease Liability- Current		108,611
Deferred Gain - Current		35,793
Total Current Liabilities		<u>355,445</u>

Long-Term Liabilities

Operating Lease Liability- Long Term		315,059
Deferred Gain - Long Term		23,861
Total Long Term Liabilities		<u>338,920</u>

Total Liabilities

694,365

Net Assets

Without Donor Restrictions		2,896,106
With Donor Restrictions		174,430
Total Net Assets		<u>3,070,536</u>

Total Liabilities and Net Assets

\$ 3,764,901

The accompanying notes are an integral part of these financial statements.

Brother Wolf Animal Rescue, Inc.

Statement of Activities

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 1,799,113	\$ 299,662	\$ 2,098,775
Foundation Grants	24,000	75,279	99,279
Program Service Revenue	255,051	-	255,051
Retail Sales	53,889	-	53,889
Thrift Store Sales	157,501	-	157,501
In Kind Contributions	49,250	-	49,250
Other Income	53,324	-	53,324
Employee Retention Credit	283,500	-	283,500
Net Assets Released from Restrictions	456,163	(456,163)	-
Total Revenue and Support	3,131,791	(81,222)	3,050,569
Expenses			
Program Services	1,506,484	-	1,506,484
Management and General	386,761	-	386,761
Fundraising	166,112	-	166,112
Total Expenses	2,059,357	-	2,059,357
Change in Net Assets	1,072,434	(81,222)	991,212
Net Assets, Beginning of Year	1,823,672	255,652	2,079,324
Net Assets, End of Year	\$ 2,896,106	\$ 174,430	\$ 3,070,536

The accompanying notes are an integral part of these financial statements.

Brother Wolf Animal Rescue, Inc.
Statement of Functional Expenses
Year Ended December 31, 2022

	Program	Management and General	Fundraising	Total
Salaries	\$ 754,546	\$ 223,176	\$ 85,018	\$ 1,062,740
Payroll Taxes	55,373	16,378	6,239	77,990
Employee Benefits	12,123	3,586	1,366	17,075
Employment Expenses	-	11,488	-	11,488
Total Personnel Expense	<u>822,042</u>	<u>254,628</u>	<u>92,623</u>	<u>1,169,293</u>
Advertising	-	-	3,622	3,622
Bank and Merchant Fees	-	33,450	-	33,450
Contract Labor	2,960	4,640	3,538	11,138
Dues, Licenses and Permits	4,893	231	232	5,356
Fundraising Expenses	-	-	50,049	50,049
Information Technology	30,916	7,337	-	38,253
Insurance	15,993	19,583	1,802	37,378
Office Supplies and Equipment	13,776	1,531	-	15,307
Occupancy Costs				
Rent	100,874	11,868	5,934	118,676
Repairs and Maintenance	35,824	4,214	2,107	42,145
Utilities	30,329	3,568	1,784	35,681
Printing and Postage	1,503	6,013	2,505	10,021
Professional Services	-	11,628	1,916	13,544
Program Costs				
Mobile Clinic Medical Expense	52,929	-	-	52,929
Animal Care Supplies & Expenses	46,939	-	-	46,939
Medical Supplies & Expenses	223,085	-	-	223,085
Retail Merchandise and Supplies	32,640	-	-	32,640
Seminars and Education	5,921	1,462	-	7,383
Staff Appreciation	-	9,314	-	9,314
Telephone and Communications	6,076	1,297	-	7,373
Travel and Meals	-	3,081	-	3,081
Subtotal Expenses	<u>1,426,700</u>	<u>373,845</u>	<u>166,112</u>	<u>1,966,657</u>
Depreciation	36,484	9,121	-	45,605
In Kind Expense	43,300	3,795	-	47,095
Total Expenses	<u>\$ 1,506,484</u>	<u>\$ 386,761</u>	<u>\$ 166,112</u>	<u>\$ 2,059,357</u>

The accompanying notes are an integral part of these financial statements.

Brother Wolf Animal Rescue, Inc.

Statement of Cash Flows

Year Ended December 31, 2022

Cash Flows from Operating Activities

Change in Net Assets	\$	991,212
Adjustments to reconcile change in net assets to net cash provided or (used) by operating activities:		
Depreciation		45,605
(Gains)/Losses on Investments		(6,429)
(Increase)/Decrease in Operating Assets		
Account Receivable		(260,852)
Inventory		(1,120)
Prepaid Expenses		33,451
Other Assets		(179)
Increase/(Decrease) in Operating Liabilities		
Accounts Payable		124,399
Accrued Wages and Payroll Liabilities		15,357
Accrued Vacation		4,616
Operating Lease Liability		1,217
Deferred Gain		(35,793)
Net Cash Provided by Activities		<u>911,484</u>
<u>Cash Flows from Investing Activities</u>		
Purchase/Sales of Investments, Net		(1,698,827)
Purchase of Property and Equipment		<u>(118,059)</u>
Net Cash Used by Investing Activities		<u>(1,816,886)</u>
Net Change in Cash and Cash Equivalents		(905,402)
Cash and Cash Equivalents, Beginning of Year		<u>1,995,364</u>
Cash and Cash Equivalents, End of Year	\$	<u>1,089,962</u>
Supplemental Disclosure:		
Right of Use Asset	\$	<u>422,454</u>

The accompanying notes are an integral part of these financial statements.

Brother Wolf Animal Rescue

Disclosures to the Financial Statements

Year Ended December 31, 2022

1. **Description of the Organization, Corporate and Tax-Exempt Status**

Brother Wolf Animal Rescue, Inc. (BWAR) is a non-profit, charitable organization that was established in 2007. Brother Wolf's mission is to enhance the lives of companion animals and the people who love them. Through adoption and pet retention programs, a low-cost mobile spay and neuter clinic, lifesaving shelter transfer partnerships, and extensive volunteer and foster networks, Brother Wolf Animal Rescue impacts the lives of thousands of animals each year in the Western North Carolina region.

Corporate and Tax-Exempt Status

BWAR was incorporated in 2007 as a not-for-profit corporation under the laws of the state of North Carolina under the name of Brother Wolf Canine Rescue, Inc. and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Contributions to the organization qualify for the charitable contribution deduction under Section 170(b)(1)(a). The organization is classified as a publicly supported organization under Section 509(a)(1). The organization receives its support principally through contributions and grants.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements have been prepared on an accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to not-for-profit organizations.

Financial Statement Presentation

The classification of the organization's net assets, and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of two classes of net assets – without donor restrictions and with donor restrictions – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Net Assets Without Donor Restrictions – Includes net assets that are not subject to donor-imposed restrictions and that may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and board of directors.

Net Assets With Donor Restrictions - Includes net assets that are subject to restrictions imposed by donors or grantors. Some donor and grantor restrictions are temporary in nature, such as those with a specified purpose or a timeframe for expenditure established by the donor or grantor. Other donor-imposed restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

The organization's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Concentration of Credit Risk

Financial instruments that potentially subject the organization to concentrations of credit risk consist principally of cash and cash equivalents. The organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed FDIC federally insured limits. The organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Investments

The organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income and realized and unrealized capital gains and losses, net of investment expenses.

Accounts Receivable

Accounts receivable represent uncollected amounts for program services carried out on a fee-for-service basis. An allowance for doubtful accounts is established for amounts deemed uncollectible, if needed.

Contributions and Grants Receivable

Contributions and grants receivable, without conditions, and expected to be collected within one year are recorded at net realizable value; those expected to be collected in more than one year are recorded at the present value of their future cash flows, using a risk adjusted interest rate. Any provision for uncollectible receivables is estimated by management based on historical collection experience.

Inventories

The thrift store inventory is comprised of contributed items recorded at estimated fair value. The retail store inventory is comprised of pet food and supplies purchased for resale and is valued at cost.

Property and Equipment

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The organization has adopted a capitalization threshold of \$5,000 per item. Expenses for repairs and maintenance that do not improve or extend the life of an asset are expensed as incurred.

Contributions and Grants

Contributions and grants are recognized in support: (1) when the organization receives cash, securities or other assets from a donor or grantor, (2) when a donor conveys a promise to make a donation in the future, on an unconditional basis, and (3) when a grantor awards a grant to be paid in the future, on an unconditional basis. Contributions and grants with conditions, such as performance requirements, are not recognized until the conditions on which they depend have been substantially met.

Program Service Revenue

In accordance with U.S. GAAP, the organization follows ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Program service revenue includes income from adoption and mobile clinic services.

Leases

The organization has adopted Accounting Standards Update (ASU) No. 2016-02 Leases (Topic 842) as management believes the standard improves the usefulness and understandability of the organization's financial reporting. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases, except for short-term leases less than 12 months. The new standard represents an improvement over the previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The standard was effective for annual reporting periods beginning after December 15, 2021. During the transition period, implementation is presented retrospectively at the beginning of the period of adoption through a cumulative-effective adjustment and no adjustment to the prior year financial statements. The Organization adopted (ASU) No. 2016-02 Leases (Topic 842) effective January 1, 2022 and utilized all of the available practical expedients. The adoption has a material impact on the Organization's statement of financial position but does not have a material impact on the statement of activities and cash flows.

In-Kind Contributions

The organization recognizes contributed goods and the use of facilities at estimated fair value on the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. When recognized, contributed services are reported at fair value.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain valuation techniques are used to measure fair value. There are three broad levels as follows:

Level 1 – (the highest level) inputs are based on quoted prices in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date. For example, securities traded in an active market are valued using Level 1 inputs.

Level 2 – inputs are observable inputs other than quoted prices, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term.

Level 3 – inputs are unobservable inputs for the asset or liability, meaning the inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability, including inputs related to risk, which have been developed based on the best information available in the circumstances.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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 period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain categories of expenses that are attributable to more than one program or supporting function require management's allocation on a reasonable basis that is consistently applied. The primary allocation basis used by management for personnel expenses and applicable overhead expenses is estimated based on employee time and effort.

Income Taxes/Uncertain Tax Positions

BWAR is exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code. Under the Code, however, income from certain activities not related to the organization's tax-exempt purpose may be subject to taxation as unrelated business income. The organization had no income from unrelated business activities in 2022 and was, therefore, not required to file Federal Form 990-T (Exempt Organization Business Income Tax Return). The organization believes that it has appropriate support for all tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

3. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following:

<u>As of December 31:</u>	<u>2022</u>
Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 1,089,962
Accounts Receivable	380,060
Investments	<u>1,707,220</u>
Total Financial Assets	<u>3,177,242</u>
Less Amounts Not Available to be Used in One Year:	
Building Maintenance Funds	<u>102,405</u>
Total Not Available to be Used in One Year:	<u>102,405</u>
Financial assets available to meet general expenditures over the following year	<u>\$ 3,074,837</u>

4. Cash and Cash Equivalents

Cash and cash equivalent amounts as of December 31, 2022 are shown in the list below.

Checking Accounts	\$ 505,432
Savings Account	<u>584,530</u>
Total Cash and Cash Equivalents	<u>\$ 1,089,962</u>

As of December 31, 2022 the organization exceeded the federally insured limit in cash accounts by \$742,971. Management believes the organization is not exposed to any significant credit risk on its cash balances.

5. Investments

The organization's investment activities for the year ended December 31, 2022 are summarized as follows:

Balance as of December 31, 2021	\$ 1,964
Current Year Activity:	
Contributions/Transfers	1,701,506
Investment Income and Interest	6,770
Investment Gains/(Losses)	(311)
Management Fees	(30)
Withdrawal	<u>(2,679)</u>
Balance as of December 31, 2022	<u>\$ 1,707,220</u>

The organization's investment allocations as of December 31, 2022 are as follows:

<u>Investment Type</u>	
Fixed Income	\$ 1,453,460
Cash	253,760
Total Investments	<u>\$ 1,707,220</u>

6. Accounts Receivable

The accounts receivable balance was \$380,060 as of December 31, 2022. Management believes all amounts are fully collectible, and all receipts are expected to occur in the following year. As such, no allowance for doubtful accounts or discount to present value is considered necessary. The accounts receivable balance as of December 31, 2022 consists of the following:

Bequests Receivable	\$ 350,128
NC Sales Tax Receivable	11,058
Other Receivables	18,874
Total Accounts Receivable	<u>\$ 380,060</u>

7. Inventory

BWAR holds inventory for the ReTail Store and the Second Chances Thrift Store. The total inventory balance was \$40,530 as of December 31, 2022.

8. Property and Equipment

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

Leasehold Improvements	\$ 52,262
Furniture and Equipment	107,938
Vehicles	100,462
Less: Accumulated Depreciation	(151,804)
Property and Equipment, Net	<u>\$ 108,858</u>

Depreciation expense was \$45,605 for the year ended December 31, 2022.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes as of December 31, 2022:

Adoption Fees and Animal Care	\$ 29,224
Transport Van	17,800
Building Maintenance	127,406
Total Net Assets With Donor Restrictions	<u>\$ 174,430</u>

10. Program Service Revenue

Program service revenue for the year ended December 31, 2022 consist of the following:

Adoption Fees	\$ 137,203
Mobile Clinic	117,848
Total Program Service Revenue	<u>\$ 255,051</u>

11. In-Kind Contributions

Total in-kind contributions for the year ended December 31, 2022, are summarized as follows:

Medical/Animal Supplies	\$	31,752
Legal Services		938
Veterinary Services		11,479
Thrift Store		2,345
Other		2,736
Total In-Kind Contributions	<u>\$</u>	<u>49,250</u>

- Utilized goods estimated fair value is based on wholesale value estimates that would be received for selling similar products in the United States.
- Contributed Services were utilized by the Organization's programs and the estimated fair value is based on current rates for similar services.

12. Lease Agreements

On June 1, 2021, BWAR entered into a three-year operating lease agreement for the Second Chances Thrift Store property at 49 Glendale Avenue, Asheville NC. The rent agreement is \$3,000 per month, with 3% annual increases.

On April 1, 2021, BWAR entered into a three-year operating lease agreement for the ReTail Store property at 38 Glendale Avenue, Asheville NC. The rent agreement is \$2,100 per month as of December 31, 2022.

On September 1, 2019, BWAR entered into an operating lease agreement for their Adoption Center at 31 Glendale Avenue. The initial term of the lease is for five years with the option to renew for three additional five-year periods. It is reasonably expected that the organization will renew for the three additional five-year periods. Lease payments are \$4,000 per month plus taxes and insurance for the first five years, with an annual increase of 3% after that.

In 2022, BWAR implemented the lease standard ASU 2016-02 and duly recorded its leases as assets and liabilities in its financial statements. Specifically, the company's lease agreements for its Asheville office facilities are now reflected as right-of-use assets and operating lease liabilities on its statement of financial position. The present value of the right-of-use asset and lease liability was established using an accepted risk-free discount rate and accounts for lease and non-lease components as a single lease component. As of December 31, 2022, the organization's statement of financial position showed a right-of-use asset and operating lease liability amounting to \$422,454 and \$423,670 respectively. The weighted-average remaining lease term is 5.61 years, and the company used a 3% risk-free discount rate to determine the present value of these assets and liabilities. Required lease liability by year for the remainder of the lease term is as follows:

<u>For the Years Ended December 31:</u>		
2023	\$	119,543
2024		78,460
2025		56,112
2026		56,112
2027		56,112
Thereafter		93,521
Total Undiscounted Cash Flows		<u>459,860</u>
Less: Present Value Discount		(36,190)
Total Lease Liabilities	<u>\$</u>	<u>423,670</u>

13. Deferred Gain from Sale-Leaseback Agreement

On September 1, 2019 BWAR entered into a contract with an unrelated party involving the Adoption Center at 31 Glendale Avenue that qualified as a sale-leaseback agreement per GAAP. Under the arrangement, the Adoption Center was sold and simultaneously the parties executed a lease for BWAR to occupy the entire property for its ongoing operations. This part of the transaction resulted in a gain, which per GAAP, is deferred and recognized over the initial five-year lease term (see Disclosure 12). The gain recognized on the sale was \$35,793 for the year ended December 31, 2022.

14. Volunteers

BWAR makes extensive use of volunteers to carry out its programs. For the year ended December 31, 2022, 621 active volunteers contributed 39,312 hours, with a total value of \$1,250,122 based on a rate of \$31.80 per hour, a rate provided annually by the organization Independent Sector. The services contributed by volunteers did not meet the requirements of U.S. GAAP for recognition in income.

15. Fair Value Measurements

Fair value of assets measured on a recurring basis on December 31, 2022 are as follows:

Investments:	Fair Value	Fair Value Measurements at		
		(Level 1)	(Level 2)	(Level 3)
Fixed Income	\$ 1,453,460	\$ 1,453,460	\$ -	\$ -
Cash	253,760	253,760	-	-
Total	<u>\$ 1,707,220</u>	<u>\$ 1,707,220</u>	<u>\$ -</u>	<u>\$ -</u>

16. Subsequent Events

Subsequent events have been evaluated through October 2, 2023, which is the date the financial statements were available to be issued.