

Animal Behavior College, Inc

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2023 and 2022

Animal Behavior College, Inc

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Independent Auditor's Report

To the Board of Directors
Animal Behavior College, Inc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Animal Behavior College, Inc, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Animal Behavior College, Inc as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Animal Behavior College, Inc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Animal Behavior College, Inc's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 GAAS 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 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 GAAS, 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 Animal Behavior College, Inc'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 Animal Behavior College, Inc'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses for the years ended December 31, 2023 and 2022 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Los Angeles, California
May 17, 2024

Animal Behavior College, Inc

**Balance Sheets
December 31, 2023 and 2022**

	<u>Assets</u>	
	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 823,515	\$ 1,207,057
Certificates of deposit	100,000	100,000
Accounts receivable, less allowance for doubtful accounts of \$418,652 and \$305,068	947,535	1,306,167
Prepaid expenses	<u>195,791</u>	<u>274,766</u>
Total current assets	2,066,841	2,887,990
Property and equipment, net	20,932	30,848
Right-of-use asset	291,465	417,182
Deposits	<u>12,290</u>	<u>12,290</u>
Total assets	<u>\$ 2,391,528</u>	<u>\$ 3,348,310</u>
	<u>Liabilities and Stockholder's Equity</u>	
Current liabilities		
Accounts payable and accrued expenses	\$ 647,790	\$ 732,146
Unearned revenue	800,885	1,140,450
Current portion of operating lease liability	142,486	138,336
Current portion of financing lease obligation	<u>447</u>	<u>2,588</u>
Total current liabilities	1,591,608	2,013,520
Operating lease liability, net of current portion	157,842	285,292
Financing lease obligation, net of current portion	<u>-</u>	<u>447</u>
Total liabilities	<u>1,749,450</u>	<u>2,299,259</u>
Contingencies		
Stockholder's equity		
Common stock, no par value; 5,000,000 shares authorized and 1,000,000 shares issued and outstanding	14,000	14,000
Retained earnings	<u>628,078</u>	<u>1,035,051</u>
Total stockholder's equity	<u>642,078</u>	<u>1,049,051</u>
Total liabilities and stockholder's equity	<u>\$ 2,391,528</u>	<u>\$ 3,348,310</u>

See Notes to Financial Statements.

Animal Behavior College, Inc
Statements of Operations
Years Ended December 31, 2023 and 2022

	2023		2022	
	Amount	Percent	Amount	Percent
Net tuition and fees	\$ 8,603,672	100.0 %	\$ 10,468,336	100.0 %
Operating expenses	<u>10,091,342</u>	<u>117.3</u>	<u>10,529,933</u>	<u>100.6</u>
Income (loss) from operations before other income (expense)	<u>(1,487,670)</u>	<u>(17.3)</u>	<u>(61,597)</u>	<u>(0.6)</u>
Other income (expense)				
Interest, net	4,925	-	423	-
Other	<u>76,408</u>	<u>0.9</u>	<u>81,954</u>	<u>0.8</u>
Total	<u>81,333</u>	<u>0.9</u>	<u>82,377</u>	<u>0.8</u>
Income (loss) before income tax expense	(1,406,337)	(16.4)	20,780	0.2
Income tax expense	<u>800</u>	<u>-</u>	<u>1,050</u>	<u>-</u>
Net income (loss)	<u><u>\$ (1,407,137)</u></u>	<u><u>(16.4) %</u></u>	<u><u>\$ 19,730</u></u>	<u><u>0.2 %</u></u>

See Notes to Financial Statements.

Animal Behavior College, Inc

**Statements of Changes in Stockholder's Equity
Years Ended December 31, 2023 and 2022**

	Common stock		Retained earnings	Total stockholder's equity
	Shares	Amount		
Balance, January 1, 2022	1,000,000	\$ 14,000	\$ 2,163,120	\$ 2,177,120
Distributions to stockholder	-	-	(1,147,799)	(1,147,799)
Net income	-	-	19,730	19,730
Balance, December 31, 2022	1,000,000	14,000	1,035,051	1,049,051
Contributions from stockholder	-	-	1,000,164	1,000,164
Net loss	-	-	(1,407,137)	(1,407,137)
Balance, December 31, 2023	<u>1,000,000</u>	<u>\$ 14,000</u>	<u>\$ 628,078</u>	<u>\$ 642,078</u>

See Notes to Financial Statements.

Animal Behavior College, Inc
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income (loss)	\$ (1,407,137)	\$ 19,730
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation	13,943	30,008
Amortization of right-of-use asset	125,717	120,709
Bad debt expense	113,584	1,500
Deferred rent	-	(6,751)
Changes in operating assets and liabilities		
Accounts receivable	245,048	94,022
Prepaid expenses	78,975	(104,228)
Accounts payable and accrued expenses	(84,356)	(183,452)
Unearned revenue	(339,565)	(213,811)
Operating leases	(123,300)	(114,262)
	<u>(1,377,091)</u>	<u>(356,535)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(4,027)	(6,270)
	<u>(4,027)</u>	<u>(6,270)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Repayment of finance lease obligation	(2,588)	(15,162)
Contributions from stockholder	1,000,164	-
Distributions to stockholder	-	(1,147,799)
	<u>997,576</u>	<u>(1,162,961)</u>
Net cash provided by (used in) in financing activities		
Net decrease in cash and cash equivalents	(383,542)	(1,525,766)
Cash and cash equivalents, beginning	1,207,057	2,732,823
Cash and cash equivalents, end	<u>\$ 823,515</u>	<u>\$ 1,207,057</u>
Supplemental disclosure of cash flow data		
Interest paid	<u>\$ -</u>	<u>\$ 1,967</u>
Taxes paid	<u>\$ 800</u>	<u>\$ 800</u>
Supplemental disclosure of noncash financing activities		
Right-of-use asset obtained in exchange for operating lease liability	<u>\$ -</u>	<u>\$ 537,889</u>

See Notes to Financial Statements.

Animal Behavior College, Inc

Notes to Financial Statements December 31, 2023 and 2022

Note 1 - Business and summary of significant accounting policies

Business

Animal Behavior College, Inc (the "Company") is primarily engaged in the training of individuals to become animal trainers, veterinary assistants and groomers throughout the United States and Canada.

Fair value measurements

The Company values its financial assets and liabilities on a recurring basis based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Cash equivalents and certificates of deposit

The Company considers all highly liquid investments having a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit with a maturity longer than three months but less than a year are considered short-term investments and are carried at amortized cost, which approximates fair value. Certificates of deposit with a maturity greater than one year are considered long-term investments. At December 31, 2023 and 2022, all certificates of deposit are considered Level 2 investments.

Accounts receivable

At December 31, 2023, 2022, and 2021, accounts receivable are stated at unpaid balances of \$1,366,187, \$1,611,235, and \$1,713,741 less an allowance for doubtful accounts of \$418,652, \$305,068, and \$312,052, respectively. The Company estimates expected credit losses from doubtful accounts based upon the expected collectability of its accounts, which takes into account the Company's experience and other circumstances, which may affect the ability of the students to meet their obligations.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from five to seven years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term.

Animal Behavior College, Inc

Notes to Financial Statements December 31, 2023 and 2022

Long-lived assets

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether an impairment to such value has occurred. No impairments were recorded during the years ended December 31, 2023 and 2022.

Income taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. A similar election was also made for California tax purposes. Under these provisions, the Company does not pay federal corporate income taxes, but is subject to a 1.5% California corporate income tax. The stockholder of the Company reports the Company's taxable income on his individual income tax returns.

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2023 and 2022, and for the years then ended, deferred income taxes were not material to the Company's financial statements and, accordingly, were not recorded. For the years ended December 31, 2023 and 2022, current income tax expense was \$800 and \$1,050, respectively. For the year ended December 31, 2023 and 2022, \$0 and \$0 of the current income tax expense is related to the California pass through entity elective tax.

The Company has no unrecognized tax benefits at December 31, 2023 and 2022. The Company's federal and California income tax returns prior to fiscal years 2020 and 2019, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

When necessary, the Company recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with the related tax liability in the balance sheets.

Revenue recognition

Revenue is recognized when control of the promised service is transferred to the Company's customers, in an amount that depicts the consideration the Company expects to be entitled to in exchange for those services. Revenue is not recognized unless collectability under the contract is considered probable, the contract has commercial substance and the contract has been approved. Additionally, the contract must contain payment terms, as well as the rights and commitments of both parties.

Revenue is recognized at the standard tuition rate in effect at the beginning of each program. Tuition and fees are recognized over the period in which the programs are run. Amounts received prior to the program period are recorded as unearned revenue. At December 31, 2023 and 2022, approximately \$17,610 and \$30,255, respectively, of the amounts included in unearned revenue were nonrefundable.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$3,869,654 and \$3,721,298 for the years ended December 31, 2023 and 2022, respectively.

Animal Behavior College, Inc

Notes to Financial Statements December 31, 2023 and 2022

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 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 reporting period. Actual results could differ from those estimates.

New accounting pronouncement

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), and its related amendments using the prospective method. The new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to a current and expected loss model. Under the current and expected loss model, entities will recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with ASC 326, the Company evaluates certain criteria, including aging and historical write-offs, current economic condition of specific customers and future economic conditions to determine the appropriate allowance for credit losses. receivable. The Company adopted the standard effective January 1, 2023. The Company evaluated the impact of adoption and noted that there was no impact on the financial statements.

Subsequent events

The Company has evaluated subsequent events through May 17, 2024, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Note 3 - Property and equipment

At December 31, 2023 and 2022, property and equipment consist of the following:

	2023	2022
Computer equipment	\$ 167,176	\$ 165,576
Furniture and fixtures	10,500	10,500
Telephone equipment	7,395	7,395
Office equipment	23,360	23,360
	208,431	206,831
Less accumulated depreciation and amortization	187,499	175,983
	<u>\$ 20,932</u>	<u>\$ 30,848</u>

For the years ended December 31, 2023 and 2022 depreciation expense was \$13,943 and \$30,008, respectively.

Animal Behavior College, Inc

Notes to Financial Statements December 31, 2023 and 2022

Note 4 - Employee benefit plan

The Company maintains a defined contribution plan (the "Plan") established under Section 401(k) of the Internal Revenue Code for all eligible employees. An employee may participate after having completed one year of service as defined by the Plan and upon attaining age 21. The Company may make discretionary profit-sharing contributions to the Plan. The Company has not made any contributions for the Plan for the years ended December 31, 2023 and 2022.

Note 5 - Contingencies

Litigation

The Company is subject to claims and litigation in the ordinary course of business, the outcome of which cannot be predicted with certainty. In the opinion of management, the Company has sufficient liability insurance to cover any such claims, and, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Note 6 - Right-of-use asset and operating lease liability

The Company leases its office space under a noncancelable operating lease through February 2026. All contracts that implicitly or explicitly involve property, plant and equipment are evaluated to determine whether they are or contain a lease.

At lease commencement, the Company recognizes an operating lease liability, which is measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentives. The Company has elected and applies the practical expedient available to lessees to combine nonlease components with their related lease components and account for them as a single combined lease component for all its leases. The Company remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

The Company determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is generally not readily determinable, the Company uses the risk free rate on the date of lease commencement.

For accounting purposes, the Company's leases commence on the earlier of (i) the date upon which the Company obtains control of the underlying asset and (ii) the contractual effective date of a lease. Lease commencement for most of the Company's leases coincides with the contractual effective date. The Company's leases generally have minimum base terms with renewal options or fixed terms with early termination options. Such renewal and early termination options are exercisable at the option of the Company and, when exercised, usually provide for rental payments during the extension period at then current market rates or at pre-determined rental amounts. Unless the Company determines that it is reasonably certain that the term of a lease will be extended, such as through the exercise of a renewal option or nonexercise of an early termination option, the term of a lease begins at lease commencement and spans for the duration of the minimum noncancellable contractual term. When the exercise of a renewal option or nonexercise of an early termination option is reasonably certain, the lease term is measured as ending at the end of the renewal period or on the date an early termination may be exercised.

Animal Behavior College, Inc

Notes to Financial Statements December 31, 2023 and 2022

The Company includes variable rental payments based on a rate or an index such as the Consumer Price index (CPI) in its measurement of lease payments based on the rate or index in effect at lease commencement. Other types of variable lease payments are expensed as incurred.

Leases Involving Real Estate

The lease of the Company's corporate office was entered into on March 1, 2021 and is set to expire on February 28, 2026. These terms have been incorporated into the Company's measurement of the related right-of-use asset and operating lease liability. Although the Company's real estate lease includes an option to renew that can extend the contractual terms by one additional 5-year period, this renewal option is exercisable solely at the Company's discretion and has been excluded from lease term measurements. The Company's real estate lease generally requires reimbursement of real estate taxes, common area maintenance, and insurance.

Rental payments on these leases typically provide for fixed minimum payments that increase over the lease term at predetermined amounts. These rental payments are recognized as rent expense.

Financial Information

At December 31, 2023 and 2022, the Company has a remaining right-of-use asset of \$291,465 and \$417,182, an operating lease liability of \$300,328 and \$423,628, respectively, and the rent expense for the years ended December 31, 2023 and 2022 was \$140,753 and \$136,501, respectively.

The weighted average remaining lease term is 26 months or 2.2 years as of December 31, 2023.

The weighted average remaining lease term is 38 months or 3.2 years as of December 31, 2022.

The weighted average discount rate for the Company's operating lease as of December 31, 2023 and 2022 is 4.22%. The Company has elected to use risk-free rates as the discount rate for all its leases involving other classes of underlying assets. The Company uses rates on US government securities for periods comparable with lease terms as risk-free rates.

Annual maturity analysis of the Company's lease liabilities as of December 31, 2023:

2024	\$	142,486
2025		146,761
2026		<u>24,579</u>
Grand total		313,826
Less interest		<u>(13,498)</u>
Total lease liability	\$	<u><u>300,328</u></u>

Animal Behavior College, Inc

**Notes to Financial Statements
December 31, 2023 and 2022**

Note 7 - Finance lease obligation

The Company has entered into a finance lease agreement. The lease is collateralized by equipment and expires through January 2024. The equipment is included in telephone and computer equipment (see Note 3) at December 31, 2023 and 2022.

The net balance of property and equipment under finance leases as of December 31, 2023 and 2022, consists of the following:

	<u>2023</u>	<u>2022</u>
Gross amount of equipment under finance lease	\$ 92,275	\$ 92,275
Less accumulated amortization	<u>(91,828)</u>	<u>(90,632)</u>
	<u>\$ 447</u>	<u>\$ 1,643</u>

The remaining balance of \$447 will be paid off in the year ended December 31, 2024.

Amortization of assets held under the finance lease is recorded in depreciation and amortization expense.

Supplementary Information

Animal Behavior College, Inc

**Schedules of Operating Expenses
Years Ended December 31, 2023 and 2022**

	2023		2022	
	Amount	Percent	Amount	Percent
Advertising	\$ 3,869,654	44.9 %	\$ 3,721,298	35.5 %
Automobile	18,693	0.2	20,238	0.2
Bad debts	113,584	1.3	1,500	-
Bank charges	268,902	3.1	288,529	2.8
Computer	1,188	-	1,247	-
Credit card fees	93,784	1.1	112,076	1.1
Depreciation	13,943	0.2	30,008	0.3
Donations	300	-	400	-
Educational supplies	332,898	3.9	365,337	3.5
Employee benefits	122,300	1.4	118,621	1.1
Entrance exams	13,289	0.2	2,230	-
Equipment rental	29,076	0.3	49,243	0.5
Insurance	128,551	1.5	155,467	1.5
Miscellaneous	8,365	0.1	(41,950)	(0.4)
Office	6,252	0.1	7,837	0.1
Payroll processing	18,286	0.2	19,070	0.2
Payroll taxes	281,483	3.3	330,859	3.2
Postage	39,165	0.5	73,196	0.7
Professional fees	620,429	7.2	495,916	4.7
Rent	140,751	1.6	136,501	1.3
Salaries, including independent contractors	3,829,399	44.5	4,503,949	43.0
Taxes and licenses	23,830	0.3	24,720	0.2
Telephone and utilities	95,525	1.1	99,649	1.0
Travel	8	-	369	-
Website	21,687	0.3	13,623	0.1
Total	\$ 10,091,342	117.3 %	\$ 10,529,933	100.6 %

See Independent Auditor's Report.



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