

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2010

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Freedom Service Dogs, Inc.

We have audited the accompanying statement of financial position of Freedom Service Dogs, Inc. as of December 31, 2010 and the related statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements; and, in our report dated March 12, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom Service Dogs, Inc. at December 31, 2010 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Davis & Co., CPAs, P.C.
Certified Public Accountants

Highlands Ranch, Colorado
March 30, 2011

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2010
(With comparative totals for December 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 455,956	\$ 386,459
Grants & contributions receivable	11,775	2,698
Prepaid expenses & deposits	<u>111,956</u>	<u>113,800</u>
	579,687	502,957
Fixed assets		
Furniture and equipment	31,947	31,947
Program vehicle	51,749	51,749
Leasehold improvements	<u>250,064</u>	<u>250,064</u>
	333,760	333,760
Less: accumulated depreciation	<u>(97,587)</u>	<u>(54,815)</u>
	<u>236,173</u>	<u>278,945</u>
	<u>\$815,860</u>	<u>\$781,902</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 4,898	\$ 3,509
Accrued payroll liabilities	--	1,290
Note payable to landlord	<u>134,627</u>	<u>156,180</u>
	139,525	160,979
Net assets		
Unrestricted	<u>676,335</u>	<u>620,923</u>
	<u>\$815,860</u>	<u>\$781,902</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Activity
For the year ended December 31, 2010
(With comparative totals for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
PUBLIC SUPPORT AND REVENUE		
Direct and indirect contributions	\$ 398,261	\$ 327,795
Private grants	479,143	380,454
In-kind donations	57,200	41,949
Fundraising events (net of direct donor benefits of \$26,102)	35,777	68,290
Fees, interest and other	<u>24,918</u>	<u>56,519</u>
Total public support and revenue	995,299	875,007
FUNCTIONAL EXPENSES		
Program Services		
Dog training & maintenance	540,359	575,125
Public education & other	<u>140,259</u>	<u>196,354</u>
	680,618	771,479
Support Services		
Management and general	55,324	78,931
Financial development	<u>203,945</u>	<u>221,520</u>
	<u>259,269</u>	<u>300,451</u>
Total expenses	<u>939,887</u>	<u>1,071,930</u>
Change in net assets	55,412	(196,923)
Net assets, beginning of year	<u>620,923</u>	<u>817,846</u>
Net assets, end of year	<u>\$676,335</u>	<u>\$620,923</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Functional Expenses
For the year ended December 31, 2010
(With comparative totals for the year ended December 31, 2009)

	<u>Program Services</u>			<u>Supporting Services</u>		<u>2010</u>	<u>2009</u>
	<u>Dog Training</u>	<u>Education & Other</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Financial Development</u>		
Personnel expenses	\$259,232	\$ 72,670	\$331,902	\$36,230	\$ 89,320	\$457,452	\$503,499
Contract & professional services	29,157	8,762	37,919	1,450	26,878	66,247	48,696
Occupancy costs	69,118	12,427	81,545	5,467	18,935	105,947	129,384
Veterinary care services	84,306	--	84,306	--	--	84,306	98,502
Program supplies & equipment	42,765	2,269	45,034	--	--	45,034	29,767
Publications, printing & postage	6,382	15,862	22,244	574	14,784	37,602	61,471
Office supplies & expenses	9,089	2,912	12,001	4,411	1,666	18,078	18,571
Conferences, travel & meetings	5,371	3,900	9,271	1,849	3,381	14,501	46,428
Advertising & promotion	--	285	285	444	33,126	33,855	68,450
Insurance & miscellaneous	9,475	2,806	12,281	1,619	2,869	16,769	12,634
Telecommunications & internet	<u>1,103</u>	<u>11,206</u>	<u>12,309</u>	<u>144</u>	<u>4,869</u>	<u>17,322</u>	<u>12,037</u>
	515,998	133,099	649,097	52,188	195,828	897,113	1,029,439
Depreciation expense	<u>24,361</u>	<u>7,160</u>	<u>31,521</u>	<u>3,136</u>	<u>8,117</u>	<u>42,774</u>	<u>42,491</u>
Total	<u>\$540,359</u>	<u>\$140,259</u>	<u>\$680,618</u>	<u>\$55,324</u>	<u>\$203,945</u>	<u>\$939,887</u>	<u>\$1,071,930</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2010
(With comparative totals for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 55,412	\$(196,923)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	42,774	42,491
Changes in operating assets and liabilities:		
(Increase) decrease in grants & contributions receivable	(9,077)	28,027
(Increase) decrease in prepaid expenses & deposits	1,844	(356)
Increase (decrease) in accounts payable	1,389	(17,751)
(Decrease) in accrued payroll liabilities	<u>(1,290)</u>	<u>(4,794)</u>
Net cash flow from operating activities	91,050	(149,306)
Cash flow from financing activity – note from landlord	(21,553)	45,784
Cash flow from investing activity – fixed asset additions	<u> --</u>	<u>(76,835)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	69,497	(180,354)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>386,459</u>	<u>566,815</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$455,956</u>	<u>\$386,459</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$174</u>	<u>\$2,752</u>
Interest expense – cash basis	<u>\$14,637</u>	<u>\$16,711</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2010

Note 1: Summary of Significant Accounting Policies

Significant accounting policies are as follows:

a. Organization

Freedom Service Dogs, Inc. (FSD) was incorporated as a nonprofit corporation under the laws of the State of Colorado on October 6, 1987. FSD rescues dogs from area shelters and trains them to assist people with mobility impairments. Trained dogs are matched with and donated to clients who have been taught how to work with the dog. FSD supports the client-dog team for its lifetime. FSD adopts out dogs to a qualified pet home whenever they are unable to meet the rigorous requirements for becoming a service dog. FSD also provides education to the general public about all types of assistance dogs.

During January of 2008, FSD relocated to a much larger facility in Englewood, CO (See Note 2) which has over four times the capacity of its previous location. FSD serves all of Colorado and is supported primarily by individual contributions and private sector grants.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America.

Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted - Resources not subject to donor-imposed restrictions.

Temporarily restricted - Resources subject to donor-imposed restrictions that will be satisfied either by the actions of FSD or the passage of time.

There were no donor restricted resources on hand at either year end.

c. Cash and cash equivalents and marketable securities

FSD considers all demand deposits, savings accounts, and highly liquid investments purchased with an original maturity of six months or less to be cash equivalents provided they are not legally restricted as to timely withdrawal. All but \$84,334 of cash equivalents at December 31, 2010 were FDIC insured.

d. Property and equipment

FSD follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. The fair value of donated assets is similarly capitalized. Repairs and other renewals of items are charged to expense

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property and equipment (continued)

when incurred. Depreciation of furniture, equipment and leasehold improvements is provided using the straight-line basis and estimated useful lives of five to fifteen years. When items are disposed of the related cost and accumulated depreciation is eliminated from the accounts and any gain or loss is reflected in operations.

e. Revenue recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated by the donor for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, FSD reports the support as unrestricted.

f. Donated services and materials

In-kind contributions of boarding and veterinary care are recorded at their estimated fair values since both would typically need to be purchased if not provided by donation. The current and prior years' values of \$18,750 and \$34,567, respectively, are recorded herein under "veterinary care services."

During 2010 and 2009, FSD also received supplies and equipment worth \$38,450 and \$7,382, respectively, which are recorded herein under "program supplies & equipment" or "office supplies & expenses."

g. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h. Functional expenses

Expenses directly identified with a program or supporting service area are charged directly to such area. Expenses which benefit more than one area are allocated based on time expended, square footage or another reasonable basis.

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

i. Tax status

The Internal Revenue Service has recognized the tax-exempt status of FSD under Section 501(c)(3) of the Internal Revenue Code since its inception.

Effective January 1, 2010 FSD adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which interpreted various previous announcements with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. FSD has determined that no cumulative effect adjustment was necessary upon adoption of FIN 48, and that no uncertain tax positions have been taken (or are expected to be taken) that could have a material effect on its income tax liabilities. FSD believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status.

Note 2: Lease Commitment, Note Payable to Landlord and Building Campaign

On September 7, 2007 FSD signed an agreement to lease for seven years a substantially larger facility for its office and program space in Englewood, CO. Occupancy commenced February 1, 2008 after the completion of necessary renovations by the lessor/landlord. The minimum rentals required under the agreement over the remaining four years of the initial seven year lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$109,573
2012	115,340
2013	121,107
2014	<u>164,840</u>
Total commitment	<u>\$510,860</u>

The agreement includes two options to extend the lease for an additional five years each. Management, recognizing the need for more service dogs in the community, has initiated a campaign to raise the funds necessary to purchase the building. As of the date of the audit report, \$230,255 had been raised for this purpose in 2011. Rent expense incurred during the current year of \$55,512 is included herein in the statement of functional expenses as the primary component of "occupancy costs".

FSD has also borrowed \$134,627 from the lessor/landlord which is being repaid at a monthly rate of \$3,016 (8% interest) over a five year period ending January of 2013. FSD was required by the underlying agreement to escrow a \$100,000 construction deposit which is scheduled to be refunded during April of 2011.