

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Freedom Service Dogs
Englewood, Colorado

We have audited the accompanying financial statements of Freedom Service Dogs (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows 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 of material misstatement.

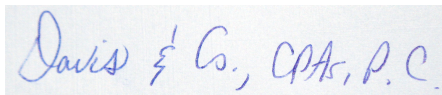
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

The prior year summarized comparative totals have been derived from the Organization's 2011 financial statements, and, in our opinion dated March 12, 2012, we issued an unqualified opinion on those financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom Service Dogs as of December 31, 2012 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Highlands Ranch, Colorado
May 1, 2013

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2012
(With comparative totals for December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 808,017	\$ 769,651
Contributions receivable	9,912	2,257
Prepaid expenses & deposits	<u>35,032</u>	<u>37,003</u>
	852,961	808,911
Fixed assets		
Furniture and equipment	34,981	31,947
Program vehicles	64,698	64,698
Leasehold improvements	<u>250,542</u>	<u>250,542</u>
	350,221	347,187
Less: accumulated depreciation	<u>(168,765)</u>	<u>(142,102)</u>
	<u>181,456</u>	<u>205,085</u>
	<u>\$1,034,417</u>	<u>\$1,013,996</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued liabilities payable	\$ 15,994	\$ 1,659
Accrued compensated absences	20,560	--
Note payable to landlord	<u>84,113</u>	<u>110,817</u>
	120,667	112,476
Net assets		
Unrestricted	457,811	584,410
Temporarily restricted	<u>455,939</u>	<u>317,110</u>
	<u>913,750</u>	<u>901,520</u>
	<u>\$1,034,417</u>	<u>\$1,013,996</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Activity
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
PUBLIC SUPPORT AND REVENUE		
Direct and indirect contributions	\$ 446,835	\$ 670,752
Private & government grants	601,892	617,257
In-kind donations	48,602	43,379
Fundraising events (net of direct donor benefits of \$23,969)	29,049	22,026
Fees, interest and other	<u>32,703</u>	<u>26,356</u>
Total public support and revenue	1,159,081	1,379,770
FUNCTIONAL EXPENSES		
Program Services		
Dog training & maintenance	683,421	640,717
Public education & other	<u>217,460</u>	<u>202,106</u>
	900,881	842,823
Support Services		
Management and general	83,686	86,776
Financial development	<u>162,284</u>	<u>224,986</u>
	<u>245,970</u>	<u>311,762</u>
Total expenses	<u>1,146,851</u>	<u>1,154,585</u>
Change in net assets	12,230	225,185
Net assets, beginning of year	<u>901,520</u>	<u>676,335</u>
Net assets, end of year	<u>\$913,750</u>	<u>\$901,520</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Functional Expenses
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	<u>Program Services</u>			<u>Supporting Services</u>		<u>2012</u>	<u>2011</u>
	<u>Dog Training</u>	<u>Education & Other</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Financial Development</u>		
Personnel expenses	\$ 383,308	\$ 151,164	\$ 534,472	\$ 43,919	\$ 79,149	\$657,540	\$573,472
Contract & professional services	51,966	9,118	61,084	7,743	3,580	72,407	78,308
Occupancy costs	86,802	32,621	119,423	18,579	17,399	155,401	219,409
Veterinary care services	89,341	--	89,341	--	--	89,341	102,988
Program supplies & equipment	34,497	1,950	36,447	--	--	36,447	37,679
Publications, printing & postage	3,318	1,362	4,680	334	44,586	49,600	30,202
Office supplies & expenses	5,619	2,550	8,169	1,997	3,549	13,715	12,913
Conferences, travel & meetings	6,279	7,269	13,548	2,028	5,978	21,554	23,013
Advertising & promotion	--	2,600	2,600	72	3,308	5,980	11,190
Insurance & miscellaneous	5,296	2,269	7,565	3,889	980	12,434	12,400
Telecommunications & internet	<u>1,264</u>	<u>487</u>	<u>1,751</u>	<u>3,507</u>	<u>511</u>	<u>5,769</u>	<u>8,496</u>
	667,690	211,390	879,080	82,068	159,040	1,120,188	1,110,070
Depreciation expense	<u>15,731</u>	<u>6,070</u>	<u>21,801</u>	<u>1,618</u>	<u>3,244</u>	<u>26,663</u>	<u>44,515</u>
Total	<u>\$683,421</u>	<u>\$217,460</u>	<u>\$900,881</u>	<u>\$83,686</u>	<u>\$162,284</u>	<u>\$1,146,851</u>	<u>\$1,154,585</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 12,230	\$225,185
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	26,663	44,515
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	(7,655)	9,518
Decrease in prepaid expenses & deposits	1,971	74,953
Increase (decrease) in accrues liabilities payable	14,335	(3,239)
Increase in accrued compensated absences	<u>20,560</u>	<u>—</u>
Net cash flow from operating activities	68,104	350,932
Cash flow from financing activity – note payments	(26,704)	(23,810)
Cash flow from investing activity – fixed asset additions	<u>(3,034)</u>	<u>(13,427)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	38,366	313,695
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>769,651</u>	<u>455,956</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$808,017</u>	<u>\$769,651</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$1,168</u>	<u>\$2,940</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2012

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.

FSD launched "Operation Impact," a capital campaign, late in 2010 to purchase a primary administration and training facility. (See Note 3). FSD serves all of Colorado and now serves the entire U.S. with "Operation Freedom," a program which trains dogs to partner with disabled veterans. FSD is supported primarily by contributions and grants.

b. Financial statement presentation

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

c. Cash and cash equivalents and marketable securities

FSD considers all demand and time deposits purchased with an original maturity of six months or less to be cash equivalents provided they are not legally restricted as to timely withdrawal. \$290,824 of FSD's cash equivalents at December 31, 2012 were not 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, 2012

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 \$34,505 and \$31,028, respectively, are recorded herein under "veterinary care services."

During 2012 and 2011, FSD also received supplies and equipment worth \$14,097 and \$12,351, respectively, which are recorded herein under "program supplies & equipment".

g. 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 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, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

i. Subsequent Events Review

Management has evaluated subsequent events through May 1, 2013, the date that these financial statements were available to be issued.

j. Tax status

FSD is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. FSD has adopted FASB ASC No. 740. FSD determined that no cumulative effect adjustment was necessary upon adoption of ASC 740, 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 has no unrelated business income and believes that it has properly complied with and maintained its tax-exempt status.

Note 2: Lease Commitment and Note Payable to Landlord

In February 2008 FSD commenced the seven year lease for its current office and program space in Englewood, CO. The lease agreement includes two options for five year extensions. The minimum rents required under the agreement over the remaining two years of the initial seven year term are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$135,525
2014	<u>164,840</u>
Total commitment	<u>\$300,365</u>

Rent expense incurred during the current year of \$118,604 is included in the statement of functional expenses, herein, as the primary component of "occupancy costs". FSD has also borrowed \$84,113 from the landlord which is being repaid at a monthly rate of \$3,016 (8% interest) over a seven year period ending January of 2015, at which time it is due in full. FSD also has a \$33,032 security deposit with the landlord which is scheduled to be refunded at the end of the lease.

Note 3: Capital Campaign and Related Temporarily Restricted Net Assets

Recognizing the need for more service dogs in the communities served, management initiated the "Operation Impact" campaign late in 2010 to raise \$2,000,000. \$1,500,000 is needed to purchase a primary administration and training facility and complete necessary on-site renovations. \$500,000 is needed to build program capacity after taking occupancy in the new facility. As of December 31, 2012 FSD had \$455,939 of donor restricted cash on hand for the campaign, which is recorded as "temporarily restricted net assets" herein.