

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2014

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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 statements of financial position as of December 31, 2014 & 2013, and the related statements of activities, functional expenses and cash flows for the years 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

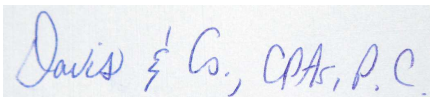
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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.

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, 2014 & 2013 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Highlands Ranch, Colorado
April 15, 2015

FREEDOM SERVICE DOGS, INC.
 Statements of Financial Position
 December 31, 2014 and 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 713,273	\$ 1,896,158	\$ 2,609,431	\$ 1,869,141
Grants & contributions receivable	25,167	--	25,167	--
Prepaid expenses & deposits	--	<u>31,300</u>	<u>31,300</u>	<u>65,232</u>
	<u>738,440</u>	<u>1,927,458</u>	<u>2,665,898</u>	<u>1,934,373</u>
Fixed assets				
Furniture and equipment	45,509	--	45,509	40,066
Program vehicles	64,698	--	64,698	64,698
Leasehold improvements	<u>250,542</u>	<u> </u>	<u>250,542</u>	<u>250,542</u>
	360,749	--	360,749	355,306
Less: accumulated depreciation	<u>(220,427)</u>	<u> </u>	<u>(220,427)</u>	<u>(193,872)</u>
	<u>140,322</u>	<u> </u>	<u>140,322</u>	<u>161,434</u>
	<u>\$878,762</u>	<u>\$1,927,458</u>	<u>\$2,806,220</u>	<u>\$2,095,807</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accrued liabilities payable	\$ 65,271	\$ --	\$ 65,271	\$ 33,482
Accrued compensated absences	26,450	--	26,450	22,725
Funds held for ADI conference	35,565	--	35,565	--
Note payable to landlord	<u>23,246</u>	<u> </u>	<u>23,246</u>	<u>55,056</u>
	<u>150,532</u>	<u> </u>	<u>150,532</u>	<u>111,263</u>
Net assets				
Unrestricted	728,230	--	728,230	440,160
Temporarily restricted	<u> </u>	<u>1,927,458</u>	<u>1,927,458</u>	<u>1,544,384</u>
	<u>728,230</u>	<u>1,927,458</u>	<u>2,655,688</u>	<u>1,984,544</u>
	<u>\$878,762</u>	<u>\$1,927,458</u>	<u>\$2,806,220</u>	<u>\$2,095,807</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
 Statements of Activity and Changes in Net Assets
 For the years ended December 31, 2014 and 2013

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 1,306,999	\$ 391,464	\$1,698,463	\$1,170,389
Private & government grants	324,836	25,000	349,836	1,001,879
In-kind donations	117,761	--	117,761	69,955
Fundraising events (net of direct donor benefits of \$120,999)	117,809	--	117,809	67,065
Fees, interest and other	<u>31,675</u>	<u>--</u>	<u>31,675</u>	<u>33,451</u>
	1,899,080	416,464	2,315,544	2,342,739
Net assets released by satisfaction of donor restrictions	<u>33,390</u>	<u>(33,390)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	1,932,470	383,074	2,315,544	2,342,739
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	913,171	--	913,171	685,852
Public education & other	<u>259,600</u>	<u>--</u>	<u>259,600</u>	<u>265,945</u>
	1,172,771	--	1,172,771	951,797
Support Services				
Management and general	189,221	--	189,221	109,211
Financial development	<u>282,408</u>	<u>--</u>	<u>282,408</u>	<u>210,937</u>
	<u>471,629</u>	<u>--</u>	<u>471,629</u>	<u>320,148</u>
Total expenses	<u>1,644,400</u>	<u>--</u>	<u>1,644,400</u>	<u>1,271,945</u>
Change in net assets	288,070	383,074	671,144	1,070,794
Net assets, beginning of year	<u>440,160</u>	<u>1,544,384</u>	<u>1,984,544</u>	<u>913,750</u>
Net assets, end of year	<u>\$728,230</u>	<u>\$1,927,458</u>	<u>\$2,655,688</u>	<u>\$1,984,544</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
 Statements of Functional Expenses
 For the years ended December 31, 2014 and 2013

	Program Services			Supporting Services			
	Dog Training	Education & Other	Program Total	Management and General	Financial Development	2014	2013
Personnel expenses	\$ 445,343	\$ 174,172	\$ 619,515	\$ 80,465	\$ 86,904	\$786,884	\$711,489
Contract & professional services	51,287	5,100	56,387	33,760	85,200	175,347	80,244
Occupancy costs	127,300	36,365	163,665	26,320	18,324	208,309	180,012
Veterinary care services	133,888	--	133,888	--	--	133,888	91,438
Program supplies & equipment	73,999	1,521	75,520	--	--	75,520	44,932
Publications, printing & postage	18,844	12,884	31,728	6,743	29,724	66,195	33,209
Office supplies & expenses	14,563	5,757	20,320	8,087	2,659	31,066	22,096
Conferences, travel & meetings	14,066	8,221	22,307	5,244	3,456	31,007	33,156
Advertising & promotion	2,575	4,516	7,091	3,601	23,895	34,587	22,483
Insurance & miscellaneous	7,021	1,079	8,100	8,597	337	17,034	12,576
Technology & internet	14,921	5,823	20,744	7,604	29,701	58,049	15,203
	902,057	255,168	1,157,225	180,421	280,200	1,617,846	1,246,838
Depreciation expense	11,114	4,432	15,546	8,800	2,208	26,554	25,107
Total	\$913,171	\$259,600	\$1,172,771	\$189,221	\$282,408	\$1,644,400	\$1,271,945

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
 Statements of Cash Flows
 For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 671,144	\$1,070,794
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	26,554	25,107
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	(25,167)	9,912
Decrease (increase) in prepaid expenses & deposits	33,932	(30,200)
Increase in accrued liabilities payable	31,789	17,488
Increase in cash held for ADI conference	35,566	--
Increase in accrued compensated absences	<u>3,725</u>	<u>2,165</u>
Net cash flow from operating activities	777,543	1,095,266
Cash flow from financing activity – note payments to landlord	(31,810)	(29,057)
Cash flow from investing activity – fixed asset additions	<u>(5,443)</u>	<u>(5,085)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	740,290	1,061,124
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,869,141</u>	<u>808,017</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,609,431</u>	<u>\$1,869,141</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$2,716</u>	<u>\$1,793</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

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 2011 to purchase a primary administration and training facility. (See Note 3). Several properties are currently being evaluated. 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. \$1,610,230 of FSD's cash equivalents at December 31, 2014 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, 2014 and 2013

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 \$94,877 and \$24,206, respectively, are recorded herein under "veterinary care services."

During 2014 and 2013, FSD also received supplies and equipment worth \$22,884 and \$45,749, 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, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

i. Subsequent Events Review

Management has evaluated subsequent events through April 15, 2015, the date that these financial statements were available to be issued.

j. Concentrations of credit risk

Financial instruments that potentially subject FSD to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. Due to the nature of the instruments and the payors, management does not believe any significant risks exist due to the concentrations of credit risk at December 31, 2014 and 2013.

k. Tax status

FSD is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. FSD has no unrelated business income and believes that it has complied with all requirements necessary to maintain its tax-exempt status.

Note 2: Lease Commitment and Note Payable to Landlord

In February 2008 FSD commenced the eight year lease for its current office and program space in Englewood, CO. The minimum rents required under the agreement over the remaining year of the initial eight year term is as follows:

<u>Year</u>	<u>Amount</u>
2015	<u>\$141,288</u>

Rent expense incurred during the current year of \$141,291 is included in the statement of functional expenses, herein, as the primary component of "occupancy costs". FSD has also borrowed \$23,246 from the landlord which is being repaid at a monthly rate of \$3,016 (8% interest) over a seven year period ending during 2015.

Note 3: Temporarily Restricted Net Assets

The Organization's \$1,927,458 of temporarily restricted net assets at December 31, 2014 represents donor restricted funds for "Operation Impact", a capacity building capital campaign. The funds will be used towards the purchase of a new facility with expanded capacity for training service dogs. Activity within the campaign during the current year was as follows:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2013</u>	<u>Current year</u>	<u>Balance at Dec 31, 2014</u>
		<u>Revenues</u> <u>Expenses</u>	
"Operation Impact" Campaign	<u>\$1,544,384</u>	<u>\$416,464</u> <u>\$(33,390)</u>	<u>\$1,927,458</u>