

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2013

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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, 2013 & 2012, 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, 2013 & 2012 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 8, 2014

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2013
(With comparative totals for December 31, 2012)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2013</u>	<u>Totals</u> <u>2012</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$354,957	\$1,514,184	\$1,869,141	\$ 808,017
Grants & contributions receivable	--	--	--	9,912
Prepaid expenses & deposits	<u>35,032</u>	<u>30,200</u>	<u>65,232</u>	<u>35,032</u>
	389,989	1,544,384	1,934,373	852,961
Fixed assets				
Furniture and equipment	40,066	--	40,066	34,981
Program vehicles	64,698	--	64,698	64,698
Leasehold improvements	<u>250,542</u>	--	<u>250,542</u>	<u>250,542</u>
	355,306	--	355,306	350,221
Less: accumulated depreciation	<u>(193,872)</u>	--	<u>(193,872)</u>	<u>(168,765)</u>
	<u>161,434</u>	--	<u>161,434</u>	<u>181,456</u>
	<u>\$551,423</u>	<u>\$1,544,384</u>	<u>\$2,095,807</u>	<u>\$1,034,417</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accrued liabilities payable	\$ 33,482	\$ --	\$ 33,482	\$ 15,994
Accrued compensated absences	22,725	--	22,725	20,560
Note payable to landlord	<u>55,056</u>	--	<u>55,056</u>	<u>84,113</u>
	111,263	--	111,263	120,667
Net assets				
Unrestricted	440,160	--	440,160	457,811
Temporarily restricted	<u>--</u>	<u>1,544,384</u>	<u>1,544,384</u>	<u>455,939</u>
	<u>440,160</u>	<u>1,544,384</u>	<u>1,984,544</u>	<u>913,750</u>
	<u>\$551,423</u>	<u>\$1,544,384</u>	<u>\$2,095,807</u>	<u>\$1,034,417</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Activity and Changes in Net Assets
For the year ended December 31, 2013
(With comparative totals for the year ended December 31, 2012)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Totals</u>	
			<u>2013</u>	<u>2012</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 627,869	\$ 542,520	\$1,170,389	\$ 446,835
Private & government grants	453,637	548,242	1,001,879	601,892
In-kind donations	69,955	--	69,955	48,602
Fundraising events (net of direct donor benefits of \$114,544)	67,065	--	67,065	29,049
Fees, interest and other	<u>33,451</u>	<u>--</u>	<u>33,451</u>	<u>32,703</u>
	1,251,977	1,090,762	2,342,739	1,159,081
Net assets released by satisfaction of donor restrictions	<u>2,317</u>	<u>(2,317)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	1,254,294	1,088,445	2,342,739	1,159,081
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	685,852	--	685,852	683,421
Public education & other	<u>265,945</u>	<u>--</u>	<u>265,945</u>	<u>217,460</u>
	951,797	--	951,797	900,681
Support Services				
Management and general	109,211	--	109,211	83,686
Financial development	<u>210,937</u>	<u>--</u>	<u>210,937</u>	<u>162,284</u>
	<u>320,148</u>	<u>--</u>	<u>320,148</u>	<u>245,970</u>
Total expenses	<u>1,271,945</u>	<u>--</u>	<u>1,271,945</u>	<u>1,146,851</u>
Change in net assets	(17,651)	1,088,445	1,070,794	12,230
Net assets, beginning of year	<u>457,811</u>	<u>455,939</u>	<u>913,750</u>	<u>901,520</u>
Net assets, end of year	<u>\$440,160</u>	<u>\$1,544,384</u>	<u>\$1,984,544</u>	<u>\$913,750</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Functional Expenses
For the year ended December 31, 2013
(With comparative totals for the year ended December 31, 2012)

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Dog Training</u>	<u>Education & Other</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Financial Development</u>	<u>2013</u>	<u>2012</u>
Personnel expenses	\$ 368,789	\$ 171,185	\$ 539,974	\$ 58,576	\$112,939	\$711,489	\$657,540
Contract & professional services	41,002	3,903	44,905	4,099	31,240	80,244	72,407
Occupancy costs	85,769	46,929	132,698	20,548	26,766	180,012	155,401
Veterinary care services	91,438	--	91,438	--	--	91,438	89,341
Program supplies & equipment	42,822	2,110	44,932	--	--	44,932	36,447
Publications, printing & postage	8,220	8,547	16,767	8,228	8,214	33,209	49,600
Office supplies & expenses	11,488	5,536	17,024	2,875	2,197	22,096	13,715
Conferences, travel & meetings	10,301	14,659	24,960	5,585	2,611	33,156	21,554
Advertising & promotion	--	2,086	2,600	2,827	17,570	22,483	5,980
Insurance & miscellaneous	7,013	1,446	8,459	3,256	861	12,576	12,434
Technology & internet	<u>6,735</u>	<u>2,614</u>	<u>9,349</u>	<u>1,263</u>	<u>4,591</u>	<u>15,203</u>	<u>5,769</u>
	673,577	259,015	932,592	107,257	206,989	1,246,838	1,120,188
Depreciation expense	<u>12,275</u>	<u>6,930</u>	<u>19,205</u>	<u>1,954</u>	<u>3,948</u>	<u>25,107</u>	<u>26,663</u>
Total	<u>\$685,852</u>	<u>\$265,945</u>	<u>\$951,797</u>	<u>\$109,211</u>	<u>\$210,937</u>	<u>\$1,271,945</u>	<u>\$1,146,851</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2013
(With comparative totals for the year ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$1,070,794	\$ 12,230
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	25,107	26,663
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	9,912	(7,655)
Decrease (increase) in prepaid expenses & deposits	(30,200)	1,971
Increase in accrued liabilities payable	17,488	14,335
Increase in accrued compensated absences	<u>2,165</u>	<u>20,560</u>
Net cash flow from operating activities	1,095,266	68,104
Cash flow from financing activity – note payments	(29,057)	(26,704)
Cash flow from investing activity – fixed asset additions	<u>(5,085)</u>	<u>(3,034)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,061,124	38,366
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>808,017</u>	<u>769,651</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,869,141</u>	<u>\$808,017</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$1,793</u>	<u>\$1,168</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 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 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. \$959,387 of FSD's cash equivalents at December 31, 2013 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, 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 \$24,206 and \$34,505, respectively, are recorded herein under "veterinary care services."

During 2013 and 2012, FSD also received supplies and equipment worth \$45,749 and \$14,097, 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, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

i. Subsequent Events Review

Management has evaluated subsequent events through April 8, 2014, the date that these financial statements were available to be issued. Since year end, the Organization received a \$150,000 challenge grant towards the campaign.

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 complied with all requirements necessary to maintain its 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 year of the initial seven year term is as follows:

<u>Year</u>	<u>Amount</u>
2014	<u>\$141,288</u>

Rent expense incurred during the current year of \$135,628 is included in the statement of functional expenses, herein, as the primary component of "occupancy costs". FSD has also borrowed \$55,056 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: Temporarily Restricted Net Assets

The Organization's \$1,544,384 of temporarily restricted net assets at December 31, 2013 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</u> <u>Dec 31, 2012</u>	<u>Current year</u>	<u>Balance at</u> <u>Dec 31, 2013</u>
		<u>Revenues</u> <u>Expenses</u>	
"Operation Impact" Campaign	<u>\$455,939</u>	<u>\$1,090,762</u> <u>\$(2,317)</u>	<u>\$1,544,384</u>