

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2011

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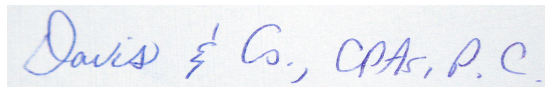
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2011 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 2010 financial statements; and, in our report dated March 30, 2011, 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, 2011 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 12, 2012

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2011
(With comparative totals for December 31, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 769,651	\$ 455,956
Grants & contributions receivable	2,257	11,775
Prepaid expenses & deposits	<u>37,003</u>	<u>111,956</u>
	808,911	579,687
Fixed assets		
Furniture and equipment	31,947	31,947
Program vehicles	64,698	51,749
Leasehold improvements	<u>250,542</u>	<u>250,064</u>
	347,187	333,760
Less: accumulated depreciation	<u>(142,102)</u>	<u>(97,587)</u>
	<u>205,085</u>	<u>236,173</u>
	<u>\$1,013,996</u>	<u>\$815,860</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,659	\$ 4,898
Note payable to landlord	<u>110,817</u>	<u>134,627</u>
	112,476	139,525
Net assets		
Unrestricted	584,410	676,335
Temporarily restricted	<u>317,110</u>	<u>--</u>
	<u>901,520</u>	<u>676,335</u>
	<u>\$1,013,996</u>	<u>\$815,860</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Activity
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
PUBLIC SUPPORT AND REVENUE		
Direct and indirect contributions	\$ 670,752	\$ 398,261
Private & government grants	617,257	479,143
In-kind donations	43,379	57,200
Fundraising events (net of direct donor benefits of \$9,218)	22,026	35,777
Fees, interest and other	<u>26,356</u>	<u>24,918</u>
Total public support and revenue	1,379,770	995,299
FUNCTIONAL EXPENSES		
Program Services		
Dog training & maintenance	640,717	540,359
Public education & other	<u>202,106</u>	<u>140,259</u>
	842,823	680,618
Support Services		
Management and general	86,776	55,324
Financial development	<u>224,986</u>	<u>203,945</u>
	<u>311,762</u>	<u>259,269</u>
Total expenses	<u>1,154,585</u>	<u>939,887</u>
Change in net assets	225,185	55,412
Net assets, beginning of year	<u>676,335</u>	<u>620,923</u>
Net assets, end of year	<u>\$901,520</u>	<u>\$676,335</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Functional Expenses
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<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>2011</u>	<u>2010</u>
Personnel expenses	\$321,558	\$ 97,184	\$418,742	\$37,623	\$117,107	\$573,472	\$457,452
Contract & professional services	22,689	50,677	73,366	1,170	3,772	78,308	66,247
Occupancy costs	116,831	28,888	145,719	24,957	48,733	219,409	105,947
Veterinary care services	102,988	--	102,988	--	--	102,988	84,306
Program supplies & equipment	35,288	2,391	37,679	--	--	37,679	45,034
Publications, printing & postage	2,766	2,462	5,228	305	24,669	30,202	37,602
Office supplies & expenses	5,029	1,577	6,606	4,513	1,794	12,913	18,078
Conferences, travel & meetings	6,136	5,430	11,566	7,329	4,118	23,013	14,501
Advertising & promotion	--	491	491	459	10,240	11,190	33,855
Insurance & miscellaneous	2,236	210	2,446	7,516	2,438	12,400	16,769
Telecommunications & internet	<u>3,758</u>	<u>2,432</u>	<u>6,190</u>	<u>351</u>	<u>1,955</u>	<u>8,496</u>	<u>17,322</u>
	619,279	191,742	811,021	84,223	214,826	1,110,070	897,113
Depreciation expense	<u>21,438</u>	<u>10,364</u>	<u>31,802</u>	<u>2,553</u>	<u>10,160</u>	<u>44,515</u>	<u>42,774</u>
Total	<u>\$640,717</u>	<u>\$202,106</u>	<u>\$842,823</u>	<u>\$86,776</u>	<u>\$224,986</u>	<u>\$1,154,585</u>	<u>\$939,887</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$225,185	\$ 55,412
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	44,515	42,774
Changes in operating assets and liabilities:		
(Increase) decrease in grants & contributions receivable	9,518	(9,077)
Decrease in prepaid expenses & deposits	74,953	1,844
Increase (decrease) in accounts payable	(3,239)	1,389
(Decrease) in accrued payroll liabilities	<u> --</u>	<u> (1,290)</u>
Net cash flow from operating activities	350,932	91,050
Cash flow from financing activity – note paydowns	(23,810)	(21,553)
Cash flow from investing activity – fixed asset additions	<u> (13,427)</u>	<u> --</u>
CHANGE IN CASH AND CASH EQUIVALENTS	313,695	69,497
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>455,956</u>	<u>386,459</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$769,651</u>	<u>\$455,956</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$2,940</u>	<u>\$174</u>
Interest expense – cash basis	<u>\$12,380</u>	<u>\$14,637</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2011

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 the facility it currently leases in Englewood, CO. (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.

There were no donor restricted resources on hand at the end of 2010.

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. \$238,876 of FSD's cash equivalents at December 31, 2011 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, 2011

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 \$31,028 and \$18,750, respectively, are recorded herein under "veterinary care services."

During 2011 and 2010, FSD also received supplies and equipment worth \$12,351 and \$38,450, respectively, which are recorded herein under either "program supplies & equipment" or "office supplies & expenses."

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, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

i. 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 Interpretation No. 48, which interpreted various previous pronouncements with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. FSD 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 properly maintained, its tax-exempt status.

Note 2: Lease Commitment and Note Payable to Landlord

On February 1, 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 three years of the initial seven year term are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$121,107
2013	135,525
2014	<u>164,840</u>
Total commitment	<u>\$421,472</u>

Rent expense incurred during the current year of \$179,023 is included in the statement of functional expenses, herein, as the primary component of "occupancy costs".

FSD has also borrowed \$110,817 from the landlord which is being repaid at a monthly rate of \$3,016 (8% interest) over a five year period ending January of 2013, at which time it is due in full. FSD also has a \$35,032 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 community, management initiated the "Operation Impact" campaign late in 2010 to raise \$2,000,000. The landlord has given FSD an open ended option to purchase its facilities for its appraised value of \$1,000,000. In addition, \$1,000,000 is needed to purchase an adjacent vacant lot, improve overall drainage and establish a reserve for future repairs and maintenance. As of December 31, 2011 FSD had \$317,110 of donor restricted cash on hand for the campaign, which is recorded as temporarily restricted net assets herein.