

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2020

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C P A s , P . C .

Member, AICPA and Colorado Society of CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Freedom Service Dogs, Inc.
Englewood, Colorado

We have audited the accompanying financial statements of Freedom Service Dogs, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom Service Dogs, Inc. as of December 31, 2020 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.

Davis + Co., CPAs, P.C.

Highlands Ranch, Colorado
May 12, 2021

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$5,144,745	\$ 103,012	\$5,247,757	\$4,149,759
Accounts receivable	--	--	--	54,124
Prepaid expenses & deposits	<u>40,377</u>	<u>--</u>	<u>40,377</u>	<u>--</u>
	5,185,122	103,012	5,288,134	4,203,883
Investments				
Endowment	2,036,410	--	2,036,410	1,812,906
REIT account	<u>32,441</u>	<u>--</u>	<u>32,441</u>	<u>34,298</u>
	2,068,851	--	2,068,851	1,847,204
Property and Equipment				
Buildings and improvements	7,146,623	--	7,146,623	7,112,388
Furniture and equipment	210,530	--	210,530	175,540
Program vehicles	<u>186,113</u>	<u>--</u>	<u>186,113</u>	<u>104,304</u>
	7,543,266	--	7,543,266	7,392,232
Less: accumulated depreciation	<u>(1,217,485)</u>	<u>--</u>	<u>(1,217,485)</u>	<u>(953,774)</u>
	<u>6,325,781</u>	<u>--</u>	<u>6,325,781</u>	<u>6,438,458</u>
	<u>\$13,579,754</u>	<u>\$103,012</u>	<u>\$13,682,766</u>	<u>\$12,489,545</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 48,718	\$ --	\$ 48,718	\$ 50,509
Accrued payroll liabilities	141,530	--	141,530	174,240
Note payable to bank	--	--	--	209,044
PPP loan payable	302,000	--	302,000	--
Deferred revenue	<u>115,438</u>	<u>--</u>	<u>115,438</u>	<u>21,174</u>
	607,686	--	607,686	454,967
Net assets				
Without donor restrictions				
Undesignated	2,419,877	--	2,419,877	1,610,402
Investment in Property and equipment	6,325,781	--	6,325,781	6,229,414
Designated by the Board for:				
Operating reserve	2,190,000	--	2,190,000	2,250,000
Endowment	2,036,410	--	2,036,410	1,812,906
With donor restrictions	<u>--</u>	<u>103,012</u>	<u>103,012</u>	<u>131,856</u>
	<u>12,972,068</u>	<u>103,012</u>	<u>13,075,080</u>	<u>12,034,578</u>
	<u>\$13,579,754</u>	<u>\$103,012</u>	<u>\$13,682,766</u>	<u>\$12,489,545</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statement of Activity and Changes in Net Assets
For the year ended December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 3,613,289	\$ 90,512	\$3,703,801	\$2,969,224
Private & government grants	988,072	12,500	1,000,572	1,271,203
In-kind donated services & goods	40,394	--	40,394	64,299
Fundraising events (net of direct donor benefits of \$43,187)	186,631	--	186,631	698,756
Unrealized gain, Endowment	184,843	--	184,843	311,383
Unrealized loss, REIT	(1,857)	--	(1,857)	--
Realized investment income	58,870	--	58,870	68,320
Fees and other income	33,841	--	33,841	27,988
	<u>5,104,083</u>	<u>103,012</u>	<u>5,207,095</u>	<u>5,411,173</u>
Net assets released by satisfaction of timing or purpose restrictions	<u>131,856</u>	<u>(131,856)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	5,235,939	(28,844)	5,207,095	5,411,173
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	2,466,491	--	2,466,491	2,310,242
Public education & other	877,918	--	877,918	846,602
	<u>3,344,409</u>	<u>--</u>	<u>3,344,409</u>	<u>3,156,844</u>
Support Services				
Management and general	255,310	--	255,310	233,233
Financial development	566,874	--	566,874	568,062
	<u>822,184</u>	<u>--</u>	<u>822,184</u>	<u>801,295</u>
Total expenses	<u>4,166,593</u>	<u>--</u>	<u>4,166,593</u>	<u>3,958,139</u>
Change in net assets	1,069,346	(28,844)	1,040,502	1,453,034
Net assets, beginning of year	<u>11,902,722</u>	<u>131,856</u>	<u>12,034,578</u>	<u>10,581,544</u>
Net assets, end of year	<u>\$12,972,068</u>	<u>\$103,012</u>	<u>\$13,075,080</u>	<u>\$12,034,578</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statement of Functional Expenses
For the year ended December 31, 2020
(With Comparative Totals for 2019)

	Program Services			Supporting Services		
	Dog Operations	Education & Client		Management and		Financial Development
		Relations	Program Total	General	2020	
Personnel expenses	\$ 1,345,220	\$ 515,267	\$ 1,860,487	\$ 158,297	\$ 340,627	\$ 2,359,411
Contract & professional services	501,206	242,438	743,644	75,692	137,626	956,962
Occupancy costs	115,995	6,658	122,653	6,576	2,220	131,449
Program supplies & equipment	101,781	3,292	105,073	5	4,896	109,974
Publications, printing & postage	10,978	29,492	40,470	3,145	14,533	58,148
Office supplies & expenses	28,132	11,274	39,406	2,478	12,267	54,151
Travel, meetings & conferences	47,348	20,256	67,604	484	7,875	75,963
Advertising & promotion	5	7,206	7,211	13	3,526	10,750
Insurance expense	23,281	1,553	24,834	517	821	26,172
Technology & telecommunications	55,205	24,659	79,864	2,829	37,209	119,902
	2,229,151	862,095	3,091,246	250,036	561,600	3,902,882
Depreciation expense	237,340	15,823	253,163	5,274	5,274	263,711
Total	\$2,466,491	\$877,918	\$3,344,409	\$255,310	\$566,874	\$4,166,593
						\$3,958,139

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,040,502	\$1,453,034
Adjustments for non-cash gains and losses included in change in net assets:		
Unrealized gains, Endowment	(184,843)	(311,383)
Unrealized loss, REIT	1,857	--
Depreciation	263,711	267,196
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	54,124	(54,124)
Decrease (increase) in prepaid expenses & deposits	(40,377)	10,639
Increase (decrease) in accounts payable	(1,791)	19,495
Increase (decrease) in accrued payroll liabilities	(32,710)	64,041
Increase in deferred revenue	94,264	7,174
Increase in PPP loan payable	<u>302,000</u>	<u>--</u>
Net cash flow from operating activities	1,496,737	1,456,072
Cash flow adjustments from financing activity:		
Repayments of notes payable to bank	(209,044)	(622,944)
Cash flow adjustments from investing activities:		
Endowment earnings, less fees	(38,661)	(1,501,523)
Additions to buildings and improvements	(34,235)	(48,132)
Additions to furniture, equipment & vehicles	<u>(116,799)</u>	<u>(67,346)</u>
	(189,695)	(1,617,001)
CHANGE IN CASH AND CASH EQUIVALENTS	1,097,998	(783,873)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,149,759</u>	<u>4,933,632</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$5,247,757</u>	<u>\$4,149,759</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$7,336</u>	<u>\$14,032</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2020

Note 1: Organization Background and Summary of Significant Accounting Policies

a. Organization background

Freedom Service Dogs, Inc. ("FSD") was incorporated as a nonprofit corporation under the laws of the State of Colorado on October 6, 1987. FSD unleashes the potential of dogs by transforming them into custom-trained, life-changing assistance dogs for people in need. FSD serves clients across the U.S. including individuals who suffer from mobility impairments, veterans who have post-traumatic stress or traumatic brain injury, and children who have autism. 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 also trains dogs to become therapy dogs for licensed social workers and therapists. The Pawsitive Connection program combines group discussions with positive reinforcement-based dog training to develop empathy and pro-social skills for youth on the autism spectrum or with other neurocognitive disabilities. The Operation Freedom program trains dogs to partner with disabled veterans. 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.

In October of 2016, FSD completed a capital campaign and took occupancy of its new corporate headquarters and state of the art program facility in Englewood, Colorado. The construction loan incurred for this effort was paid off early in January 2020. The new facility increased program capacity by doubling the number of dog kennels and increasing training space.

FSD is supported primarily by contributions and grants from the private sector.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with USGAAP. Net assets, support and revenues are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for both an operating reserve and board-designated endowment. (See Notes 2 & 4)

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions that will be satisfied either by the actions of FSD or the passage of time. (See Note 6)

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

c. Cash and cash equivalents

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. See Note 1k regarding concentrations of credit risks associated with FSD's cash balances.

d. Property and equipment

FSD follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,000. The fair value of donated assets is similarly capitalized. Repairs and other renewals of items are charged to expense when incurred. Depreciation of furniture and equipment is provided using the straight-line basis and estimated useful lives of 3 or 5 years. Depreciation of buildings and improvements is provided using the straight-line basis and an estimated useful life of between 27.5 to 29.5 years. When items are disposed of the related cost and accumulated depreciation is eliminated from the accounts.

e. Revenue recognition

All contributions are considered to be available for operations unless specifically restricted by the donor. Amounts received that are restricted by the donor either for specific purposes or future time periods are reported as support that increases "net assets with donor restrictions." When a donor restriction is satisfied, "net assets with donor restrictions" are reclassified to "net assets without donor restrictions" and reported in the statement of activities as "net assets released from restrictions". If a donor restriction is satisfied in the same time period in which the contribution is received, FSD reports the support as without donor restrictions.

FSD adopted ASU 2018-08, topic 606 (FASB ASC 606) "Revenues from Contracts with Customers" effective January 1, 2020. Accordingly, program service fees pursuant to "purchase of service" grants are recorded as revenue in the period earned by FSD's performance of its underlying obligations. Funds received in advance of being earned are recorded as deferred revenue, a liability.

f. Comparative financial information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class, which does not constitute a presentation in conformity with USGAAP. Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2019, from which the summarized information was derived.

g. Donated services and materials

In-kind contributions are recorded at their fair value if they would have been purchased if not provided by donation. Services must also be technical in nature and provided by persons with the required certifications. The current years' values of vet care and dog operation supplies, amounting to \$3,471 & \$36,923, respectively, are recorded herein.

(Continued)

FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

g. Donated services, supplies and materials (continued)

FSD relied upon 67,152 hours of non-technical services received from 250 volunteers during the current year. Although integral to accomplishing FSD's mission, these services did not qualify for recording herein.

h. Estimates

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

i. Functional allocation of expenses

Expenses which can be 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 either on square footage usage or the time expended as captured on staff timesheets.

j. Subsequent events review

Management has evaluated subsequent events through May 12, 2021, the date that the independent auditor's report on these financial statements was available to be issued. (See Notes 2, 4 & 5)

k. Concentrations of credit risk

Financial instruments that potentially subject FSD to concentrations of credit risk consist primarily of cash equivalents and notes payable. Due to the nature of the instruments and the payors, management does not believe any significant risks exist due to the concentrations of debt related credit risk at December 31, 2020 and 2019. FSD places its temporary cash investments with high credit quality financial institutions and limits its amount of credit exposure to any one financial institution; however, balances exceed federally insured limits. FSD has never experienced any losses related to those balances. At December 31, 2020 and 2019, FSD had \$3,196,854 and \$2,032,347 of cash in excess of insured limits, respectively.

l. Liquidity and availability of financial resources

Management, in conjunction with the Finance Committee of the Board of Directors, monitors cash flow on a monthly basis. Financial assets available for general operating expenditure within one year of the balance sheet date consist of the following cash and cash equivalents and other current assets within the "without donor restriction" net asset class:

Undesignated	\$2,327,436
Board designated operating reserve	<u>2,250,000</u>
	<u>\$4,577,436</u>

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

m. 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: Board Designated Endowment Fund/Subsequent Event

FSD received an unrestricted donation of \$1,381,961 in 2018 which the Board of Directors designated for an endowment fund. The endowment fund was established on January 3, 2019. During 2019, a donor restricted contribution of \$75,000 was received and the fund also had realized investment income (net of fees) of \$44,562 and unrealized gains of \$311,383, resulting in a fund balance at December 31, 2019 of \$1,812,906. During 2020 the fund had unrealized gains of \$184,843 and \$38,661 of realized investment income (net of fees), resulting in a fund balance at December 31, 2020 of \$2,036,410.

\$70,000 of donor restricted funds as of December 31, 2020 were transferred to the endowment fund in January 2021.

The Board approved a spending policy allowing for a maximum annual distribution, starting in 2020, of 4% of total market value based on a 3-year rolling computed average balance. Based on better than forecasted 2020 fundraising results, no distribution was made during 2020. The underlying investment allocation policy requires diversification into 4 categories, each with specified minimum/maximum allocation percentages within the total portfolio which are intended to limit the risk associated with any one category. At a minimum, the allocation within the 4 categories is reviewed annually.

As of December 31, 2020, all investments qualify as Level 1 within the USGAAP fair value hierarchy, due to the existence of published daily quotes in active markets to establish fair value.

Note 3: Note Payable Commitment

In 2015, FSD obtained a \$2,336,250 seven year loan to finance the remaining balance of its construction activity. The loan had a fixed 3.07% interest rate and required minimum monthly payments of \$11,214. At various times during 2017, 2018 and 2019, FSD paid the loan off in excess of the minimum required, based on cash flow forecasts and Board approval. As of December 31, 2019 the principal balance owed was \$209,044, which was paid off in full during January of 2020. Interest expense incurred during 2020 and 2019 of \$2,597 and \$10,814, respectively, is recorded, herein, as a minor component of "occupancy costs".

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2020

Note 4: Board Designated Operating Reserve/Subsequent Event

FSD's Board of Directors has established that a designated reserve be maintained within the category of "net assets without donor restrictions." The Board resolved that as of December 31, 2020, this reserve should equal six months of expenses as estimated based on the final operating budget approved for 2021 (and approved early in 2021), which amounted to \$2,190,000.

Note 5: Federal PPP Loan from the Small Business Administration/Subsequent Event

In April 2020, FSD received a \$302,000 loan through their primary bank under the Small Business Administration's Payroll Protection Program (PPP) intended to help mitigate the financial impact of the COVID 19 pandemic by providing support to meet payroll and related expenses. Recorded as a liability at December 31, 2020, FSD used the proceeds for payroll related costs during the 24-week period from when the loan was issued on April 15.

In early January of 2021, FSD submitted an application for forgiveness of 100% of this loan. The amount of forgiveness was dependent upon satisfying all verification requirements, including the level of future Full Time Equivalent (FTE) employees. Any loan amounts not forgiven will result in on-going principal and interest payments over 2 years at a 1% interest rate, but may be paid off early without penalty.

On January 20, 2021, FSD was notified through its bank that the SBA had forgiven the full amount of the 2020 loan. On January 28, 2021, FSD was notified that it had received a second PPP loan in the amount of \$401,803.

Note 6: Net Assets with Donor Restrictions

During 2020 FSD incurred the following activity within the "net assets with donor restrictions" class, resulting in a balance at December 31, 2020 of \$103,012:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2019</u>	<u>Current year</u>		<u>Balance at Dec 31, 2020</u>
		<u>Additions</u>	<u>Releases</u>	
Donations and grants:				
- With purpose restrictions	\$ 116,856	\$ 90,512	\$ (116,856)	\$ 90,512
Donation for 2021 dog training	--	12,500	--	12,500
Donation for 2020 dog training	<u>15,000</u>	<u>--</u>	<u>(15,000)</u>	<u>--</u>
	<u>\$131,856</u>	<u>\$103,012</u>	<u>\$(131,856)</u>	<u>\$103,012</u>