

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

* * * * *

DECEMBER 31, 2017

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activity and Changes in Net Assets	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9



Member: AICPA and Colorado Society of CPAs

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, 2017 & 2016, 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, 2017 & 2016 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.

Davis & Co., CPAs, P.C.

Highlands Ranch, Colorado
April 17, 2018

FREEDOM SERVICE DOGS, INC.
Statements of Financial Position
December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$2,687,674	\$ --	\$2,687,674	\$1,897,355
Accounts receivable	82,000	--	82,000	--
Marketable securities	--	33,921	33,921	34,240
Prepaid expenses & deposits	<u>12,391</u>	<u>--</u>	<u>12,391</u>	<u>25,082</u>
	<u>2,782,065</u>	<u>33,921</u>	<u>2,815,986</u>	<u>1,956,677</u>
Property, Plant and Equipment				
Buildings and improvements	6,920,147	--	6,920,147	6,253,589
Furniture and equipment	99,884	--	99,884	89,884
Program vehicles	<u>64,698</u>	<u>--</u>	<u>64,698</u>	<u>64,698</u>
	<u>7,084,729</u>	<u>--</u>	<u>7,084,729</u>	<u>6,408,171</u>
Less: accumulated depreciation	<u>(423,882)</u>	<u>--</u>	<u>(423,882)</u>	<u>(171,803)</u>
	<u>6,660,847</u>	<u>--</u>	<u>6,660,847</u>	<u>6,236,368</u>
	<u>\$9,442,912</u>	<u>\$33,921</u>	<u>\$9,476,833</u>	<u>\$8,193,045</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 32,905	\$ --	\$ 32,905	\$ 16,124
Accrued payroll liabilities	34,177	--	34,177	70,650
Notes payable, current	<u>67,486</u>	<u>--</u>	<u>67,486</u>	<u>65,421</u>
	<u>134,568</u>	<u>--</u>	<u>134,568</u>	<u>152,195</u>
Notes Payable, long term	1,412,755	--	1,412,755	2,185,790
Net assets				
Unrestricted	7,895,589	--	7,895,589	5,820,820
Temporarily restricted	<u>--</u>	<u>33,921</u>	<u>33,921</u>	<u>34,240</u>
	<u>7,895,589</u>	<u>33,921</u>	<u>7,929,510</u>	<u>5,855,060</u>
	<u>\$9,442,912</u>	<u>\$33,921</u>	<u>\$9,476,833</u>	<u>\$8,193,045</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, 2017 and 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 3,192,286	\$ --	\$3,192,286	\$2,964,710
Private & government grants	693,875	--	693,875	629,865
In-kind donated assets	--	459,531	459,531	--
In-kind donated services & goods	208,709	--	208,709	182,667
Fundraising events (net of direct donor benefits of \$166,029)	570,103	--	570,103	401,774
Loss on asset disposals	--	--	--	(91,935)
Fees, interest and other	<u>44,663</u>	<u>1,712</u>	<u>46,375</u>	<u>23,307</u>
	4,709,636	461,243	5,170,879	4,110,388
Net assets released by satisfaction of donor restrictions	<u>461,562</u>	<u>(461,562)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	5,171,198	(319)	5,170,879	4,110,388
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	1,638,176	--	1,638,176	1,210,622
Public education & other	<u>904,928</u>	<u>--</u>	<u>904,928</u>	<u>499,546</u>
	2,543,104	--	2,543,104	1,710,168
Support Services				
Management and general	119,291	--	119,291	109,675
Financial development	<u>434,034</u>	<u>--</u>	<u>434,034</u>	<u>233,812</u>
	<u>553,325</u>	<u>--</u>	<u>553,325</u>	<u>343,487</u>
Total expenses	<u>3,096,429</u>	<u>--</u>	<u>3,096,429</u>	<u>2,053,655</u>
Change in net assets	2,074,769	(319)	2,074,450	2,056,733
Net assets, beginning of year	<u>5,820,820</u>	<u>34,240</u>	<u>5,855,060</u>	<u>3,798,327</u>
Net assets, end of year	<u>\$7,895,589</u>	<u>\$33,921</u>	<u>\$7,929,510</u>	<u>\$5,855,060</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, 2017 and 2016

	<u>Program Services</u>			<u>Supporting Services</u>		<u>2017</u>	<u>2016</u>
	<u>Dog Training</u>	<u>Public Education & Other</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Financial Development</u>		
Personnel expenses	\$ 798,367	\$ 377,166	\$1,175,533	\$ 90,791	\$ 128,732	\$1,395,056	\$1,031,749
Contract & professional services	213,122	400,475	613,597	1,140	170,925	785,662	218,578
Occupancy costs	143,502	17,105	160,607	8,619	8,554	177,780	268,128
Program supplies & equipment	168,615	7,842	176,457	--	--	176,457	228,022
Publications, printing & postage	7,832	26,497	34,329	1,270	41,571	77,170	59,591
Office supplies & expenses	21,014	4,782	25,796	2,378	20,046	48,220	40,187
Travel, meetings & conferences	28,413	22,596	51,009	4,875	12,886	68,770	37,814
Advertising & promotion	81	4,169	4,250	--	11,123	15,373	22,585
Insurance & miscellaneous	15,566	1,946	17,512	3,117	1,149	21,778	20,714
Technology & internet	<u>36,625</u>	<u>15,158</u>	<u>51,783</u>	<u>851</u>	<u>25,452</u>	<u>78,086</u>	<u>62,162</u>
	1,433,137	877,736	2,310,873	113,041	420,438	2,844,352	1,989,530
Depreciation expense	<u>205,039</u>	<u>27,192</u>	<u>232,231</u>	<u>6,250</u>	<u>13,596</u>	<u>252,077</u>	<u>64,125</u>
Total	<u>\$1,638,176</u>	<u>\$904,928</u>	<u>\$2,543,104</u>	<u>\$119,291</u>	<u>\$434,034</u>	<u>\$3,096,429</u>	<u>\$2,053,655</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,074,450	\$2,056,733
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	252,077	64,125
Loss on asset disposals	--	91,935
Changes in operating assets and liabilities:		
(Increase) decrease in marketable securities	319	(34,240)
(Increase) in accounts receivable	(82,000)	--
(Increase) decrease in prepaid expenses & deposits	12,692	(25,082)
(Decrease) increase in accounts payable	16,782	(44,668)
(Decrease) in restricted advance project funding	--	(411,111)
Increase (decrease) in accrued payroll liabilities	<u>(36,473)</u>	<u>28,313</u>
Net cash flow from operating activities	2,237,847	1,726,005
Cash flow from financing activity:		
Repayments of note payable to bank	(770,970)	(63,211)
Cash flow from investing activity:		
Additions to buildings	(666,558)	(2,766,077)
Additions to furniture and equipment	<u>(10,000)</u>	<u>--</u>
	(676,558)	(2,766,077)
CHANGE IN CASH AND CASH EQUIVALENTS	790,319	(1,103,283)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,897,355</u>	<u>3,000,638</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,687,674</u>	<u>\$1,897,355</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$2,428</u>	<u>\$1,259</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2017 and 2016

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 unleashes the potential of shelter 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 PTSD or TBI, 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 rescue dogs to become therapy dogs for licensed social workers and therapists. The Pawsitive Connections program combines group discussions with positive reinforcement-based dog training to develop empathy and pro-social skills with at-risk youth. 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. About one in twelve dogs meet the requirements. FSD also provides education to the general public about all types of assistance dogs.

In October of 2016, FSD completed a capital campaign, "A Tail of Transformation," which funded the build-out of its new corporate headquarters and state of the art program facility in Englewood, Colorado. The new facility increased program capacity by doubling the number of dog kennels and increasing dog training space. FSD also took occupancy in October of 2016. FSD is supported primarily by contributions from individuals 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 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. See Note 1j 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.

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property and equipment (continued)

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 27.5 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 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. With the exception of campaign close-out, if a restriction is fulfilled in the same time period in which the contribution is received, FSD reports the support as unrestricted.

FSD reported the net revenue from its direct mail program in the prior year and converted to gross reporting of the revenue and related expenses in the current year.

f. Donated services and materials

In-kind contributions are recorded at their estimated fair value if significant and they would typically need to be purchased if not provided by donation. In order to qualify for recording, services must also be technical in nature and provided by persons with the required professional certifications.

The current and prior years' values of medications, food, and other dog care supplies, amounting to \$38,174 and \$149,359, respectively, are recorded herein under "program supplies & equipment." Dog care and other services received during the current and prior years, worth \$170,535 and \$33,308, respectively, are recorded herein under "contract & professional services."

In early 2017, FSD received the final in-kind reports for the campaign, which resulted in capitalizing an additional \$449,531 to the building and \$10,000 to furniture & equipment. FSD relied upon over 11,280 hours of non-technical and unrecorded services received from over 400 volunteers during the current year.

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.

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

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.

i. Subsequent Events Review

Management has evaluated subsequent events through April 17, 2018, 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 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, 2017 and 2016.

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 at times exceed federally insured limits. FSD has never experienced any losses related to those balances. At December 31, 2017 and 2016, FSD had \$1,976,666 and \$963,178 of cash in excess of insured limits, respectively.

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

FSD's lease for its previous facility in Englewood, CO expired on August 31, 2016, and was continued on a month-to-month basis in 2016 until FSD took occupancy of its new facilities in October of 2016. The rent expense incurred under the lease of \$98,630 during 2016, is included in the statement of functional expenses, herein, as one of the primary components of "occupancy costs".

Note 3: Property Acquisition and Note Payable Commitment

FSD completed the purchase of a new facility on August 7, 2015 for \$3,166,457. \$340,270 more was spent during 2015 for site design, permits and environmental work. \$3,506,727 was recorded as "Construction in Progress" at December 31, 2015. \$1,170,477 of this 2015 activity was financed by funds received from FSD's original capital campaign. Also on August 7, 2015, FSD obtained a \$2,336,250 seven year loan to finance the rest of its 2015 activity. The loan was through a local bank and backed by Colorado Health Facilities Authority revenue bonds.

The loan has a fixed 3.07% interest rate and requires minimum monthly payments of \$11,214, although FSD has paid off in excess of the minimum. As of December 31, 2017 the principal balance owed was \$1,480,241 and the minimum principal payments due over each of the next five years, and thereafter in total, are as follows:

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Property Acquisition and Note Payable Commitment (Continued)

<u>Year</u>	<u>Amount</u>
2018	\$ 67,486
2019	69,618
2020	71,637
2021	74,077
2022	<u>1,197,423</u>
Total	1,480,241
Less: current portion	<u>(67,486)</u>
Long-term portion	<u>\$1,412,755</u>

Interest expense incurred during 2017 and 2016 of \$63,589 and \$69,982, respectively, is included herein as a component of occupancy costs. \$411,111 of cash advanced pursuant to this note in 2015 was restricted for use at the end of the project. FSD had recorded that as a current liability at December 31, 2015. The cash was released from restriction during 2016 as the project was reaching completion.

FSD spent another \$2,766,077 on capitalized building improvements during 2016 to complete necessary renovations prior to taking full occupancy during October of 2016. This activity was 100% funded by the "A Tail of Transformation" Campaign. In early 2017, FSD purchased an additional \$217,027 of building additions and received the final in-kind reports for the campaign, which resulted in capitalizing an additional \$449,531 to the building and \$10,000 to furniture & equipment.

Note 4: Acquisition of Disco's Dogs

In 2017, FSD acquired Disco's Dogs, a Colorado nonprofit founded in 2013 that provides specially trained service dogs and skilled companion dogs for individuals with autism related differences. Although FSD already services clients with autism, the acquisition has allowed FSD to expand clients served from children 12+ years old to children 5+ years old and introduced a new training model which allows families to be an integral part of the training process. Disco's Dogs assets of \$17,056 were transferred to FSD upon finalization of the acquisition in August 2017.

Note 5: Temporarily Restricted Net Assets

During 2016 FSD received an interest in a REIT account which is recorded herein as a "marketable security" at fair value (\$34,240) based on its USGAAP Level 1 market quote input for valuation purposes. FSD has imposed a "timing restriction" until the REIT matures in 2018, so that maximum conversion value can be realized. Activity within the Organization's temporarily restricted net asset class was as follows for the year ending December 31, 2017:

<u>Donor purpose</u>	<u>Balance at</u> <u>Dec 31, 2016</u>	<u>Current year</u>	<u>Balance at</u> <u>Dec 31, 2017</u>
		<u>Additions</u> <u>Releases</u>	
Capital Campaign - 2017 in-kind	\$ -	\$459,531 \$(459,531)	\$ -
REIT account	<u>34,240</u>	<u>1,712</u> <u>(2,031)</u>	<u>33,921</u>
	<u>\$34,240</u>	<u>\$461,243</u> <u>\$(461,562)</u>	<u>\$33,921</u>