

**FREEDOM SERVICE DOGS, INC.**

**FINANCIAL STATEMENTS**

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**DECEMBER 31, 2018**

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## 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, 2018, 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, 2018 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  
March 22, 2019

**FREEDOM SERVICE DOGS, INC.**  
Statement of Financial Position  
December 31, 2018  
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$4,623,310	\$ 310,322	\$4,933,632	\$2,687,674
Accounts receivable	--	--	--	82,000
Marketable securities	34,298	--	34,298	33,921
Prepaid expenses & deposits	<u>10,639</u>	--	<u>10,639</u>	<u>12,391</u>
	<u>4,668,247</u>	<u>310,322</u>	<u>4,978,569</u>	<u>2,815,986</u>
Property and Equipment				
Buildings and improvements	7,064,256	--	7,064,256	6,920,147
Furniture and equipment	147,800	--	147,800	99,884
Program vehicles	<u>64,698</u>	--	<u>64,698</u>	<u>64,698</u>
	<u>7,276,754</u>	--	<u>7,276,754</u>	<u>7,084,729</u>
Less: accumulated depreciation	<u>(686,578)</u>	--	<u>(686,578)</u>	<u>(423,882)</u>
	<u>6,590,176</u>	--	<u>6,590,176</u>	<u>6,660,847</u>
	<u>\$11,258,423</u>	<u>\$310,322</u>	<u>\$11,568,745</u>	<u>\$9,476,833</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	\$ 31,014	\$ --	\$ 31,014	\$ 32,905
Accrued payroll liabilities	110,199	--	110,199	34,177
Notes payable, current	110,237	--	110,237	67,486
Deferred revenue	<u>14,000</u>	--	<u>14,000</u>	--
	<u>265,450</u>	--	<u>265,450</u>	<u>134,568</u>
Notes Payable, long term	721,751	--	721,751	1,412,755
Net assets				
Without donor restrictions				
Undesignated	1,191,073	--	1,191,073	1,415,343
Investment in Property and equipment	5,758,188	--	5,758,188	5,180,246
Designated by the Board for:				
Operating reserve	1,940,000	--	1,940,000	1,300,000
Endowment	1,381,961	--	1,381,961	--
With donor restrictions	--	<u>310,322</u>	<u>310,322</u>	<u>33,921</u>
	<u>10,271,222</u>	<u>310,322</u>	<u>10,581,544</u>	<u>7,929,510</u>
	<u>\$11,258,423</u>	<u>\$310,322</u>	<u>\$11,568,745</u>	<u>\$9,476,833</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 year ended December 31, 2018**  
**(With Comparative Totals for 2017)**

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
<b>PUBLIC SUPPORT AND REVENUE</b>				
Direct and indirect contributions	\$ 4,068,733	\$ 25,000	\$4,093,733	\$3,192,286
Private & government grants	821,093	295,000	1,116,093	693,875
In-kind donated assets	--	--	--	459,531
In-kind donated services & goods	218,864	--	218,864	208,709
Fundraising events (net of direct donor benefits of \$174,209)	766,178	--	766,178	570,103
Fees, investment and other income	<u>64,204</u>	<u>377</u>	<u>64,581</u>	<u>46,375</u>
	5,939,072	320,377	6,259,449	5,170,879
Net assets released by satisfaction of timing or purpose restrictions	<u>43,976</u>	<u>(43,976)</u>	--	--
Total support, revenue & reclassifications	5,983,048	276,401	6,259,449	5,170,879
<b>FUNCTIONAL EXPENSES</b>				
<b>Program Services</b>				
Dog training & maintenance	1,993,754	--	1,993,754	1,638,176
Public education & other	<u>830,351</u>	--	<u>830,351</u>	<u>904,928</u>
	2,824,105	--	2,824,105	2,543,104
<b>Support Services</b>				
Management and general	165,341	--	165,341	119,291
Financial development	<u>617,969</u>	--	<u>617,969</u>	<u>434,034</u>
	<u>783,310</u>	--	<u>783,310</u>	<u>553,325</u>
Total expenses	<u>3,607,415</u>	--	<u>3,607,415</u>	<u>3,096,429</u>
<b>Change in net assets</b>	2,375,633	276,401	2,652,034	2,074,450
<b>Net assets, beginning of year</b>	<u>7,895,589</u>	<u>33,921</u>	<u>7,929,510</u>	<u>5,855,060</u>
<b>Net assets, end of year</b>	<u>\$10,271,222</u>	<u>\$310,322</u>	<u>\$10,581,544</u>	<u>\$7,929,510</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, 2018**  
**(With Comparative Totals for 2017)**

	Program Services			Supporting Services		<u>2018</u>	<u>2017</u>
	<u>Dog Training</u>	<u>Public Education &amp; Other</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Financial Development</u>		
Personnel expenses	\$ 988,717	\$ 384,984	\$1,373,701	\$ 127,809	\$ 168,215	\$1,669,725	\$1,395,056
Contract & professional services	270,148	338,673	608,821	22,403	251,439	882,663	785,662
Occupancy costs	137,224	8,558	145,782	2,903	2,853	151,538	177,780
Supplies & equipment	164,701	1,255	165,956	--	68,161	234,117	176,457
Publications, printing & postage	13,903	27,937	41,840	1,158	39,033	82,031	77,170
Office supplies & expenses	27,917	4,486	32,403	1,405	35,835	69,643	48,220
Travel, meetings & conferences	73,681	22,522	96,203	1,683	17,276	115,162	68,770
Advertising & promotion	181	14,437	14,618	--	5,862	20,480	15,373
Insurance & miscellaneous	14,200	884	15,084	1,802	469	17,355	21,778
Technology & telecommunications	<u>66,655</u>	<u>10,856</u>	<u>77,511</u>	<u>923</u>	<u>23,572</u>	<u>102,006</u>	<u>78,086</u>
	1,757,327	814,592	2,571,919	160,086	612,715	3,344,720	2,844,352
 Depreciation expense	 <u>236,427</u>	 <u>15,759</u>	 <u>252,186</u>	 <u>5,255</u>	 <u>5,254</u>	 <u>262,695</u>	 <u>252,077</u>
 Total	 <u>\$1,993,754</u>	 <u>\$830,351</u>	 <u>\$2,824,105</u>	 <u>\$165,341</u>	 <u>\$617,969</u>	 <u>\$3,607,415</u>	 <u>\$3,096,429</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,652,034	\$2,074,450
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	262,695	252,077
Changes in operating assets and liabilities:		
(Increase) decrease in marketable securities	(377)	319
(Increase) decrease in accounts receivable	82,000	(82,000)
Decrease in prepaid expenses & deposits	1,752	12,692
(Decrease) increase in accounts payable	(1,891)	16,782
Increase in deferred revenue	14,000	-
Increase (decrease) in accrued payroll liabilities	<u>76,022</u>	<u>(36,473)</u>
Net cash flow from operating activities	3,086,235	2,237,847
<b>Cash flow from financing activity:</b>		
Repayments of notes payable to bank	(648,253)	(770,970)
<b>Cash flow from investing activity:</b>		
Additions to buildings and improvements	(144,108)	(666,558)
Additions to furniture and equipment	<u>(47,916)</u>	<u>(10,000)</u>
	(192,024)	(676,558)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,245,958	790,319
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>2,687,674</u>	<u>1,897,355</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$4,933,632</u>	<u>\$2,687,674</u>
 Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$3,107</u>	<u>\$2,428</u>

The accompanying notes are an integral part of these statements.

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2018

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 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 rescue 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. About one in eight dogs meet the requirements. FSD also provides education to the general public about all types of assistance dogs.

In 2017, FSD acquired Disco's Dogs, a Colorado nonprofit that provides specially trained service dogs and skilled companion dogs for individuals with autism. Although FSD already served clients with autism, the acquisition allowed FSD to expand clients served from children 12+ years old to children 5+ years old and introduced a new training model which has allowed 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.

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 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 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 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 an operating reserve and board-designated endowment.



**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

b. Financial statement presentation (continued)

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.

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 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 operations 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 support that increases the "net assets with donor restrictions" class. When a temporary restriction expires, "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 fulfilled in the same time period in which the contribution is received, FSD reports the support as unrestricted.

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, 2017, from which the summarized information was derived.

g. 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.

(Continued)

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

g. Donated services and materials (continued)

The current and prior years' values of dog care and event and other supplies, amounting to \$193,873 and \$170,535, respectively, are recorded herein under "supplies & equipment." Dog care and other services received during the current and prior years, worth \$24,991 and \$38,174, respectively, are recorded herein under "contract & professional services."

In early 2017, FSD received the final in-kind reports for the capital campaign, which resulted in capitalizing an additional \$449,531 to the building and \$10,000 to furniture & equipment.

FSD relied upon 25,155 hours of non-technical and unrecorded services received from 624 volunteers during the current year.

h. 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.

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 time expended as captured on employee timesheets.

j. Subsequent events review

Management has evaluated subsequent events through March 22, 2019, the date that these financial statements were available to be issued. See Note 2 herein regarding the Board designated endowment fund established on January 3, 2019.

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, 2018 and 2017. 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, 2018 and 2017, FSD had \$3,890,811 and \$1,976,666 of cash in excess of insured limits, respectively.

(Continued)

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

i. Liquidity and availability

Financial assets available for general operating expenditure within one year of the balance sheet date consist of the following cash and cash equivalents within the “without donor restriction” net asset class:

Undesignated	\$1,191,073
Board designated operating reserve	<u>1,940,000</u>
	<u>\$3,131,073</u>

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: Subsequent Event/Board Designated Endowment Fund

FSD received an unrestricted donation of \$1,381,961 during 2018 which the Board of Directors resolved would be used to establish a designated endowment fund, pending the drafting and approval of all necessary legal and policy documents and the search and selection of an investment advisory firm. Pending the completion of this process, the funds were kept in an interest bearing account. On January 3, 2019 the funds were transferred into a separate investment account and the Endowment was initiated.

Note 3: Note Payable Commitment

On August 7, 2015, FSD obtained a \$2,336,250 seven year loan to finance the remaining balance of its construction activity. The loan, through a local bank and backed by Colorado Health Facilities Authority revenue bonds, has a fixed 3.07% interest rate and requires minimum monthly payments of \$11,214. At various times during 2017 and 2018, based on cash flow forecasts and Board approval, FSD has paid the loan off in excess of the minimum required. As of December 31, 2018 the principal balance owed was \$831,988 and the minimum principal payments due over each of the next three years, and thereafter in total, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 110,237
2020	113,655
2021	117,305
2022	<u>490,791</u>
Total	831,988
Less: current portion	<u>(110,237)</u>
Long-term portion	<u>\$721,751</u>

Interest expense incurred during 2018 and 2017 of \$36,319 and \$63,589, respectively, is included in the “statement of functional expenses”, herein, as a component of occupancy costs.

(Continued)

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2018

**Note 4: Board Designated Operating Reserve**

FSD's Board of Directors has established that a designated reserve be maintained within the category of "net assets without donor restrictions." The Board has resolved that as of December 31, 2018, this reserve should equal six months of expenses as anticipated in the final operating budget approved for 2019, which amounts to \$1,940,000.

**Note 5: Net Assets with Donor Restrictions**

During 2016 FSD received an interest in a REIT account which is recorded herein as a "marketable security" at fair value (\$34,298) based on its Level 1 market quote input for valuation purposes. FSD imposed a "timing restriction" until the REIT matured, which occurred in 2018. All activity within FSD's "net assets with donor restrictions" class was as follows for the year ending December 31, 2018:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2017</u>	<u>Current year</u>		<u>Balance at Dec 31, 2018</u>
		<u>Additions</u>	<u>Releases</u>	
REIT account	\$ 33,921	\$ 377	\$ (34,298)	\$ --
Foundation grants:				
- With purpose restrictions	--	190,000	(9,678)	180,322
- With timing restrictions	--	105,000	--	105,000
Donation for 2019 dog training	<u>    --</u>	<u>25,000</u>	<u>    --</u>	<u>25,000</u>
	<u>\$33,921</u>	<u>\$320,377</u>	<u>\$ (43,976)</u>	<u>\$310,322</u>