

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

* * * * *

DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Member, AICPA and Colorado Society of CPAs

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

Opinion

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, 2021, and the related statements of activity and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Freedom Service Dogs and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Freedom Service Dogs' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Freedom Service Dogs' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Freedom Service Dogs' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Dawin + Co., CPAs, P.C.

Highlands Ranch, Colorado
May 12, 2022

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals 2021</u>	<u>2020</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$5,912,400	\$ 100,672	\$6,013,072	\$5,247,757
Accounts receivable	--	--	--	--
Prepaid expenses & deposits	<u>28,982</u>	<u>--</u>	<u>28,982</u>	<u>40,377</u>
	<u>5,941,382</u>	<u>100,672</u>	<u>6,042,054</u>	<u>5,288,134</u>
Investments				
Endowment	2,417,045	--	2,417,045	2,036,410
REIT account	<u>34,095</u>	<u>--</u>	<u>34,095</u>	<u>32,441</u>
	<u>2,451,140</u>	<u>--</u>	<u>2,451,140</u>	<u>2,068,851</u>
Property and Equipment				
Buildings and improvements	7,263,665	--	7,263,665	7,146,623
Furniture and equipment	247,996	--	247,996	210,530
Program vehicles	<u>186,113</u>	<u>--</u>	<u>186,113</u>	<u>186,113</u>
	<u>7,697,774</u>	<u>--</u>	<u>7,697,774</u>	<u>7,543,266</u>
Less: accumulated depreciation	<u>(1,479,319)</u>	<u>--</u>	<u>(1,479,319)</u>	<u>(1,217,485)</u>
	<u>6,218,455</u>	<u>--</u>	<u>6,218,455</u>	<u>6,325,781</u>
	<u>\$14,610,977</u>	<u>\$100,672</u>	<u>\$14,711,649</u>	<u>\$13,682,766</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 20,405	\$ --	\$ 20,405	\$ 48,718
Accrued payroll liabilities	175,567	--	175,567	141,530
PPP loan payable	--	--	--	302,000
Deferred revenue	<u>16,500</u>	<u>--</u>	<u>16,500</u>	<u>115,438</u>
	<u>212,472</u>	<u>--</u>	<u>212,472</u>	<u>607,686</u>
Net assets				
Without donor restrictions				
Undesignated	3,573,005	--	3,573,005	2,419,877
Investment in Property and equipment	6,218,455	--	6,218,455	6,325,781
Designated by the Board for:				
Operating reserve	2,190,000	--	2,190,000	2,190,000
Endowment	2,417,045	--	2,417,045	2,036,410
With donor restrictions	<u>--</u>	<u>100,672</u>	<u>100,672</u>	<u>103,012</u>
	<u>14,398,505</u>	<u>100,672</u>	<u>14,499,177</u>	<u>13,075,080</u>
	<u>\$14,610,977</u>	<u>\$100,672</u>	<u>\$14,711,649</u>	<u>\$13,682,766</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, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			<u>2021</u>	<u>2020</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 3,293,810	\$ 45,160	\$3,338,970	\$3,703,801
Private & government grants	881,328	35,000	916,328	1,000,572
In-kind donated services & goods	68,242	--	68,242	40,394
Debt forgiveness income	703,803	--	703,803	--
Fundraising events (net of direct donor benefits of \$95,154)	672,680	--	672,680	186,631
Unrealized gain, Endowment	198,315	--	198,315	184,843
Unrealized gain (loss), REIT	1,654	--	1,654	(1,857)
Realized investment income	124,847	--	124,847	58,870
Fees and other income	73,391	--	73,391	33,841
	<u>6,018,070</u>	<u>80,160</u>	<u>6,098,230</u>	<u>5,207,095</u>
Net assets released by satisfaction of timing or purpose restrictions	<u>82,500</u>	<u>(82,500)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	6,100,570	(2,340)	6,098,230	5,207,095
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	2,832,977	--	2,832,977	2,466,491
Public education & other	917,095	--	917,095	877,918
	<u>3,750,072</u>	<u>--</u>	<u>3,750,072</u>	<u>3,344,409</u>
Support Services				
Management and general	273,499	--	273,499	255,310
Financial development	650,562	--	650,562	566,874
	<u>924,061</u>	<u>--</u>	<u>924,061</u>	<u>822,184</u>
Total expenses	<u>4,674,133</u>	<u>--</u>	<u>4,674,133</u>	<u>4,166,593</u>
Change in net assets	1,426,437	(2,340)	1,424,097	1,040,502
Net assets, beginning of year	<u>12,972,068</u>	<u>103,012</u>	<u>13,075,080</u>	<u>12,034,578</u>
Net assets, end of year	<u>\$14,398,505</u>	<u>\$100,672</u>	<u>\$14,499,177</u>	<u>\$13,075,080</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, 2021
(With Comparative Totals for 2020)

	Program Services			Supporting Services		
	Dog	Education	Program	Management		Financial
	Operations	& Client Relations	Total	General	Development	2020
Personnel expenses	\$ 1,590,475	\$ 528,902	\$ 2,119,377	\$ 149,239	\$ 291,213	\$ 2,559,829
Contract & professional services	566,237	253,899	820,136	80,461	197,600	1,098,197
Occupancy costs	131,134	7,703	138,837	2,568	1,318	142,723
Program supplies & equipment	103,271	9,426	112,697	52	1,457	114,206
In-kind goods & supplies	17,158	--	17,158	--	51,084	68,242
Publications, printing & postage	17,658	16,895	34,553	545	12,142	47,240
Office supplies & expenses	27,648	7,231	34,879	2,812	37,756	75,447
Travel, meetings & conferences	51,046	45,729	96,775	294	8,525	105,594
Advertising & promotion	5,729	9,938	15,667	19	3,912	19,598
Insurance expense	27,369	1,824	29,193	608	1,690	31,491
Technology & telecommunications	59,602	19,838	79,440	31,664	38,628	149,732
	<u>2,597,327</u>	<u>901,385</u>	<u>3,498,712</u>	<u>268,262</u>	<u>645,325</u>	<u>4,412,299</u>
Depreciation expense	235,650	15,710	251,360	5,237	5,237	261,834
Total	<u>\$ 2,832,977</u>	<u>\$ 917,095</u>	<u>\$ 3,750,072</u>	<u>\$ 273,499</u>	<u>\$ 650,562</u>	<u>\$ 4,674,133</u>
						<u>\$ 4,166,593</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the year ended December 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,424,097	\$1,040,502
Adjustments for non-cash gains and losses included in change in net assets:		
Unrealized gain, Endowment	(198,315)	(184,843)
Unrealized (gain) loss, REIT	(1,654)	1,857
Depreciation	261,834	263,711
PPP debt forgiveness for 2020	(302,000)	--
Changes in operating assets and liabilities:		
Decrease in accounts receivable	--	54,124
Decrease (increase) in prepaid expenses & deposits	11,395	(40,377)
(Decrease) in accounts payable	(28,313)	(1,791)
Increase (decrease) in accrued payroll liabilities	34,037	(32,710)
Increase (decrease) in deferred revenue	(98,938)	94,264
Increase in PPP loan payable	<u>--</u>	<u>302,000</u>
Net cash flow from operating activities	1,102,143	1,496,737
Cash flow adjustments from financing activity:		
Repayments of notes payable to bank	--	(209,044)
Cash flow adjustments from investing activities:		
Endowment contributions	(75,000)	--
Endowment earnings, less fees	(107,320)	(38,661)
Additions to buildings and improvements	(117,042)	(34,235)
Additions to furniture, equipment & vehicles	<u>(37,466)</u>	<u>(116,799)</u>
	(336,828)	(189,695)
CHANGE IN CASH AND CASH EQUIVALENTS	765,315	1,097,998
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,247,757</u>	<u>4,149,759</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$6,013,072</u>	<u>\$5,247,757</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$2,668</u>	<u>\$7,336</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2021

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 transforms lives by partnering people with custom-trained assistance dogs. 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 mental health and crisis professionals. 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 9)

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2021

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.

Program service fees pursuant to "purchase of service" grants are recorded as revenue ratably in the period earned by FSD's performance of its underlying contractual obligations. Revenue is reported at the amount of consideration FSD expects to receive in exchange for providing the contracted services. 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, 2020, 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. Dog operation and other supplies, amounting to \$68,242, qualify and are recorded herein.

(Continued)

FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

g. Donated services, supplies and materials (continued)

FSD relied upon 447,798 hours of non-technical services received from 155 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 benefit a specific 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, 2022, the date that the independent auditor's report on these financial statements was available to be issued. (See Note 4)

k. Concentrations of credit risk

Financial instruments that potentially subject FSD to concentrations of credit risk consist primarily of cash equivalents. FSD places its temporary cash investments with high credit quality financial institutions and limits its amount of credit exposure to any one financial institution. It has also placed funds in CDAR and CNote accounts with higher insured limits and reasonable withdrawal terms. However, balances often exceed federally insured limits. FSD has never experienced any losses related to those balances. At December 31, 2021 and 2020, FSD had \$2,348,253 and \$3,196,854 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	\$3,472,333
Board designated operating reserve	<u>2,190,000</u>
	<u>\$5,662,333</u>

(Continued)

FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2021

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

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 realized net investment income of \$44,562 and had an unrealized gain of \$311,383. During 2020 the fund realized net investment income of \$38,661 and had an unrealized gain of \$184,843. By December 31, 2020 the fund balance had grown to \$2,036,410.

During the current year \$75,000 of donor funds were transferred to the endowment fund and the fund realized net investment income of \$107,320 and had an unrealized gain of \$198,315, resulting in a balance of \$2,417,045 at December 31, 2021.

The Board approved a spending policy allowing for a maximum annual distribution of 4% of total market value based on a 3-year rolling computed average balance. Based on better than forecasted 2021 fundraising results, no distribution was made during 2021. 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, 2021, 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.

(Continued)

FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2021

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, 2021, 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. Beginning January 1, 2022 the operating reserve was updated to reflect six months of expenses for the final budget approved for 2022, which amounted to \$2,660,000.

Note 5: Joint Costs of Activity That Included a Fundraising Appeal

FSD achieves certain programmatic goals in a direct mailing campaign carried out by a third party that includes a request for contributions. The \$386,600 cost of this activity is not directly attributable to either the program or fund-raising components of the activity. These joint costs were allocated \$231,960 to program ("Education & Client Relations") and \$154,640 to "Financial Development" in the Statement of Functional Expenses, herein.

Note 6: Federal PPP Loans from the Small Business Administration

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. 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. The application for forgiveness and related official receipt of 100% forgiveness of this note, were both received during 2021.

Accordingly, both of these notes, amounting to \$703,803, have been reclassified and recorded herein as "Debt Forgiveness Income" during 2021.

Note 7: Recently Issued Accounting Pronouncements

FASB ASC Topic 842, which was issued in 2016 and will require the capitalization of most "operating leases" which were previously expensed, is anticipated to increase transparency and comparability among organizations (including nonprofits) that enter into lease agreements. In June of 2020, due mainly to the challenges of implementation to smaller organizations and the impact of the pandemic, the FASB adjusted the effective date to be for fiscal years beginning after December 15, 2021.

Accordingly, FSD has adopted this standard for 2022. Since FSD owns its facilities, the standard will only apply to several leases of office equipment and is not expected to have a significant impact on its financial statements.

(Continued)

FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2021

Note 8: Related Party Transactions

The spouse of a non-officer director was paid \$5,000 for architectural strategy and drawings. A firm owned by the spouse of an officer was paid \$1,020 for security monitoring services. Both transactions were fully disclosed to, and approved by, FSD's board of directors prior to inception.

Note 9: Net Assets with Donor Restrictions

During 2021 FSD incurred the following activity within the "net assets with donor restrictions" class, resulting in a balance at December 31, 2021 of \$100,672:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2020</u>	<u>Current year</u>		<u>Balance at Dec 31, 2021</u>
		<u>Additions</u>	<u>Releases</u>	
Donations and grants:				
- With purpose restrictions	\$ 20,512	\$ 35,000	\$ --	\$ 55,512
Donation for 2021 dog training	12,500	--	(12,500)	--
Donations for endowment fund	<u>70,000</u>	<u>45,160</u>	<u>(70,000)</u>	<u>45,160</u>
	<u>\$103,012</u>	<u>\$80,160</u>	<u>\$(82,500)</u>	<u>\$100,672</u>