

**FREEDOM SERVICE DOGS, INC.**

**FINANCIAL STATEMENTS**

\* \* \* \* \*

DECEMBER 31, 2022

## CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 -2
Financial Statements:	
Statement of Financial Position	3
Statement of Activity and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11



CPAs, P.C.

Member, AICPA and Colorado Society of CPAs

## INDEPENDENT AUDITOR'S REPORT

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, 2022, 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, 2022 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.

*Davin + Co., CPAs, P.C.*

Highlands Ranch, Colorado  
June 2, 2023

**FREEDOM SERVICE DOGS, INC.**  
Statement of Financial Position  
December 31, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2022</u>	<u>2021</u>
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$5,605,77500	\$ 100,412	\$5,706,187	\$6,013,072
Accounts receivable	108,051	--	108,051	--
Prepaid expenses & deposits	19,170	--	19,170	28,982
	<u>5,732,996</u>	<u>100,412</u>	<u>5,833,408</u>	<u>6,042,054</u>
Investments				
Endowment	1,966,705	--	1,966,705	2,417,045
REIT account	35,372	--	35,372	34,095
	<u>2,002,077</u>	<u>--</u>	<u>2,002,077</u>	<u>2,451,140</u>
Intangible asset – software usage rights, less amortization of \$31,605				
	148,995	--	148,995	--
Property and Equipment				
Buildings and improvements	7,316,358	--	7,316,358	7,263,665
Furniture and equipment	326,052	--	326,052	247,996
Program vehicles	186,113	--	186,113	186,113
	<u>7,828,523</u>	<u>--</u>	<u>7,828,523</u>	<u>7,697,774</u>
Less: accumulated depreciation	<u>(1,745,816)</u>	<u>--</u>	<u>(1,745,816)</u>	<u>(1,479,319)</u>
	<u>6,082,707</u>	<u>--</u>	<u>6,082,707</u>	<u>6,218,455</u>
	<u>\$13,966,775</u>	<u>\$100,412</u>	<u>\$14,067,187</u>	<u>\$14,711,649</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	\$ 98,609	\$ --	\$ 98,609	\$ 20,405
Accrued payroll liabilities	216,825	--	216,825	175,567
Obligation for software usage rights	81,010	--	81,010	--
Deferred revenue	--	--	--	16,500
	<u>396,444</u>	<u>--</u>	<u>396,444</u>	<u>212,472</u>
Net assets				
Without donor restrictions				
Undesignated	2,870,919	--	2,870,919	3,573,005
Investment in Property and equipment	6,082,707	--	6,082,707	6,218,455
Designated by the Board for:				
Operating reserve	2,650,000	--	2,650,000	2,190,000
Endowment	1,966,705	--	1,966,705	2,417,045
With donor restrictions	<u>--</u>	<u>100,412</u>	<u>100,412</u>	<u>100,672</u>
	<u>13,570,331</u>	<u>100,412</u>	<u>13,670,743</u>	<u>14,499,177</u>
	<u>\$13,966,775</u>	<u>\$100,412</u>	<u>\$14,067,187</u>	<u>\$14,711,649</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, 2022  
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2022</u>	<u>2021</u>
<b>PUBLIC SUPPORT AND REVENUE</b>				
Direct and indirect contributions	\$ 3,423,390	\$ 67,500	\$3,490,890	\$3,338,970
Private & government grants	898,530	19,500	918,030	916,328
In-kind donated services & goods	26,575	--	26,575	68,242
Debt forgiveness income	--	--	--	703,803
Fundraising events (net of direct donor benefits of \$295,556)	819,729	--	819,729	672,680
Unrealized investment (loss) gain	(500,666)	--	(500,666)	199,969
Realized investment income	82,150	--	82,150	124,847
Fees and other income	<u>90,450</u>	<u>--</u>	<u>90,450</u>	<u>73,391</u>
	4,840,158	87,000	4,927,158	6,098,230
Net assets released by satisfaction of timing or purpose restrictions	<u>87,260</u>	<u>(87,260)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	4,927,418	(260)	4,927,158	6,098,230
<b>FUNCTIONAL EXPENSES</b>				
Program Services				
Dog training & maintenance	3,653,896	--	3,653,896	2,832,977
Public education & other	<u>1,080,821</u>	<u>--</u>	<u>1,080,821</u>	<u>917,095</u>
	4,734,717	--	4,734,717	3,750,072
Support Services				
Management and general	386,167	--	386,167	273,499
Financial development	<u>634,708</u>	<u>--</u>	<u>634,708</u>	<u>650,562</u>
	<u>1,020,875</u>	<u>--</u>	<u>1,020,875</u>	<u>924,061</u>
Total expenses	<u>5,755,592</u>	<u>--</u>	<u>5,755,592</u>	<u>4,674,133</u>
<b>Change in net assets</b>	(828,174)	(260)	(828,434)	1,424,097
<b>Net assets, beginning of year</b>	<u>14,398,505</u>	<u>100,672</u>	<u>14,499,177</u>	<u>13,075,080</u>
<b>Net assets, end of year</b>	<u>\$13,570,331</u>	<u>\$100,412</u>	<u>\$13,670,743</u>	<u>\$14,499,177</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, 2022  
(With Comparative Totals for 2021)

	Program Services			Supporting Services		
	Dog Operations	Education & Client Relations	Program Total	Management and General	Financial Development	2021
Personnel expenses	\$ 2,146,602	\$ 602,017	\$ 2,748,619	\$ 228,050	\$ 311,513	\$ 2,509,829
Contract & professional services	521,817	283,116	804,933	99,982	218,425	1,098,197
Occupancy costs	145,804	8,486	154,290	2,846	2,828	142,723
Program supplies & equipment	224,538	29,029	253,567	10	10	114,206
In-kind goods & supplies	17,090	--	17,090	7,310	2,175	68,242
Publications, printing & postage	21,144	25,892	47,036	431	15,919	47,240
Office supplies & expenses	57,523	8,980	66,503	24,459	4,815	75,447
Travel, meetings & conferences	61,921	47,537	109,458	813	12,916	105,594
Advertising & promotion	8,028	36,423	44,451	119	1,712	46,282
Insurance expense	75,346	5,317	80,663	1,599	4,235	86,497
Technology & telecommunications	134,397	17,937	152,334	15,186	23,193	149,732
	3,414,210	1,064,734	4,478,944	380,805	597,741	4,412,299
Amortization expense	--	--	--	--	31,605	--
Depreciation expense	239,686	16,087	255,773	5,362	5,362	261,834
Total	\$3,653,896	\$1,080,821	\$4,734,717	\$386,167	\$634,708	\$4,674,133

The accompanying notes are an integral part of these statements.

**FREEDOM SERVICE DOGS, INC.**  
Statement of Cash Flows  
For the year ended December 31, 2022  
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (828,434)	\$1,424,097
Adjustments for non-cash gains and losses included in change in net assets:		
Unrealized loss, Endowment	501,943	(198,315)
Unrealized (gain) loss, REIT	(1,277)	(1,654)
Depreciation	266,497	261,834
Amortization	31,605	--
PPP debt forgiveness	--	(302,000)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(108,051)	--
Decrease in prepaid expenses & deposits	9,812	11,395
(Decrease) increase in accounts payable	78,204	(28,313)
Increase in accrued payroll liabilities	41,258	34,037
(Decrease) in deferred revenue	(16,500)	(98,938)
Increase in obligation for software usage rights	<u>81,010</u>	<u>--</u>
Net cash flow from operating activities	56,067	1,102,143
<b>Cash flow adjustments from investing activities:</b>		
Endowment contributions	--	(75,000)
Reinvested endowment earnings, net of fees	(51,603)	(107,320)
Acquisition of prepaid software usage rights	(180,600)	--
Additions to buildings and improvements	(52,693)	(117,042)
Additions to furniture, equipment & vehicles	<u>(78,056)</u>	<u>(37,466)</u>
	<u>(362,952)</u>	<u>(336,828)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(306,885)	765,315
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>6,013,072</u>	<u>5,247,757</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$5,706,187</u>	<u>\$6,013,072</u>
Supplemental disclosure of cash flow information:		
Interest & dividend income - cash basis	<u>\$47,769</u>	<u>\$25,773</u>

The accompanying notes are an integral part of these statements.



## FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2022

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 2020, FSD launched an in-house dog breeding program, which necessitated a redesign of part of the facility to include whelping and neonatal kennels. By breeding service dog candidates, FSD is able to produce more reliable service dogs, thus reducing the time clients are on the waiting list and ultimately being able to better serve those in need. As of December 2022, 209 puppies born at FSD have joined the training program.

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 7)

(Continued)

**FREEDOM SERVICE DOGS, INC.**

Notes to Financial Statements

December 31, 2022

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. Such information should be read in conjunction with our audited financial statements for the year ended December 31, 2021, 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. Supplies amounting to \$26,575 qualified and are recorded herein. \$90,839 of items qualifying as "direct donor benefits" are included in the \$295,556 netted with gross "Fundraising Events" revenue.

(Continued)

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

g. Donated services, supplies and materials (continued)

FSD relied upon 490,786 hours of non-technical services received from 372 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 June 2, 2023, the date that the independent auditor's report on these financial statements was available to be issued.

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, 2022 and 2021, FSD had \$2,093,984 and \$2,348,253 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	\$2,924,091
Board designated operating reserve	<u>2,650,000</u>
	<u>\$5,574,091</u>

(Continued)

**FREEDOM SERVICE DOGS, INC.**

Notes to Financial Statements

December 31, 2022

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. During 2021 a \$75,000 donor gift was added; and, the fund realized investment income of \$107,320 and had an unrealized gain of \$198,315. By December 31, 2021 the fund balance had grown to \$2,417,045.

During the current year the fund realized net investment income of \$51,603 and had an unrealized loss of \$501,943, resulting in a balance of \$1,966,705 at December 31, 2022.

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 & 2022 fundraising results, no distribution was made during 2022. 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, 2022, 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: Intangible Asset for Software Usage Rights

During February of 2022 FSD entered into a five year cloud based computing arrangement for all of its donor, client, and animal health data management needs. The licensing arrangement, including all necessary third party fees for on-boarding data from their existing systems, qualifies to be capitalized under the guidance of FASB Subtopic ASC 350-40, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract" and as amended by ASU 2018-15, "Goodwill and Other – Internal Use Software."

Actual costs incurred during 2022 were \$99,590. In addition, \$81,010 of costs have been accrued herein for future payments obligated under the contract in years two through five 5. Effective February 15, 2022, the total \$180,600 value of the software usage rights is being amortized on a straight-line basis over 60 months. Amortization expense recorded herein for 2022 amounted to \$31,605.

(Continued)

**FREEDOM SERVICE DOGS, INC.**  
Notes to Financial Statements  
December 31, 2022

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 resolved that as of December 31, 2022, this reserve should equal six months of expenses as estimated based on the final operating budget approved for 2022, which amounted to \$2,650,000.

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 \$420,638 cost of this activity is not directly attributable to either the program or fund-raising components of the activity. These joint costs were allocated \$255,390 to program ("Education & Client Relations") and \$165,228 to "Financial Development", both under "Contract & Professional Services", 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, were reclassified and recorded herein as "Debt Forgiveness Income" during 2021.

Note 7: Net Assets with Donor Restrictions

During 2022 FSD incurred the following activity within the "net assets with donor restrictions" class, resulting in a balance at December 31, 2022 of \$100,412:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2021</u>	<u>Current year</u>		<u>Balance at Dec 31, 2022</u>
		<u>Additions</u>	<u>Releases</u>	
Donations and grants:				
- With purpose restrictions	\$ 55,512	\$ 19,500	\$ (42,100)	\$ 32,912
Donations for endowment fund	<u>45,160</u>	<u>67,500</u>	<u>(45,160)</u>	<u>67,500</u>
	<u>\$100,672</u>	<u>\$87,000</u>	<u>\$(87,260)</u>	<u>\$100,412</u>