

Freedom Service Dogs, Inc.

Financial Statements

Nine-Month Period Ended September 30, 2024

(With Independent Auditor's Report Thereon)



Independent Auditor's Report

Board of Directors Freedom Service Dogs, Inc.

Opinion

We have audited the accompanying financial statements of Freedom Service Dogs, Inc. (the Organization), which comprise the statement of financial position as of September 30, 2024, and the related statements of activities, functional expenses, and cash flows for the nine-month period 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 the Organization as of September 30, 2024, and the changes in its net assets and its cash flows for the nine-month period then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Organization 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 the financial statements in accordance with GAAP, 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 the Organization's 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 GAAS 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 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.

**Board of Directors
Freedom Service Dogs, Inc.**

In performing an audit in accordance with GAAS, 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 the Organization's 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 the Organization's 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.

Kundinger, Corder & Montoya, P.C.

February 07, 2025

Freedom Service Dogs, Inc.
Statement of Financial Position
September 30, 2024

Assets

Cash and cash equivalents	\$ 2,289,153
Grants and contributions receivable (note 3)	138,450
Prepaid expenses	19,844
Investments (note 4)	2,785,075
Intangible assets, net (note 5)	218,274
Property and equipment, net (note 6)	<u>5,811,873</u>
Total assets	<u><u>\$ 11,262,669</u></u>

Liabilities and Net Assets

Accounts payable	\$ 147,482
Accrued expenses	351,575
Refundable advance	135,961
Obligation for software usage rights (note 5)	<u>45,568</u>
Total liabilities	<u>680,586</u>

Net assets

Without donor restrictions	
Investment in property and equipment	5,811,873
Board designated	
Operating reserve (note 7)	1,718,529
Endowment (note 8)	<u>2,360,758</u>
Total without donor restrictions	9,891,160
With donor restrictions (note 8)	<u>690,923</u>
Total net assets	<u>10,582,083</u>

Commitments (note 9)

Total liabilities and net assets	\$ <u><u>11,262,669</u></u>
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See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Activities
For the Nine-Month Period Ended September 30, 2024

	Without donor restrictions	With donor restrictions	Total
Revenue, Gains and Support			
Contributions and grants	\$ 1,138,063	1,187,350	2,325,413
In-kind donated services and goods	8,030	–	8,030
Fundraising events (net of direct donor benefits of \$164,857)	827,172	–	827,172
Investment return, net	261,827	44,559	306,386
Interest and dividend income	114,078	–	114,078
Adoption fees and other income	40,338	–	40,338
Net assets released from restrictions (note 8)	1,150,483	(1,150,483)	–
Total revenue, gains and support	<u>3,539,991</u>	<u>81,426</u>	<u>3,621,417</u>
Expenses			
Program services			
Dog operations	3,235,832	–	3,235,832
Education and client relations	1,014,748	–	1,014,748
Total program services	<u>4,250,580</u>	<u>–</u>	<u>4,250,580</u>
Supporting services			
Management and general	367,474	–	367,474
Fundraising	639,571	–	639,571
Total supporting services	<u>1,007,045</u>	<u>–</u>	<u>1,007,045</u>
Total expenses	<u>5,257,625</u>	<u>–</u>	<u>5,257,625</u>
Change in net assets	(1,717,634)	81,426	(1,636,208)
Net assets at beginning of period	<u>11,608,794</u>	<u>609,497</u>	<u>12,218,291</u>
Net assets at the end of period	<u>\$ 9,891,160</u>	<u>690,923</u>	<u>10,582,083</u>

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Functional Expenses
For the Nine-Month Period Ended September 30, 2024

	Program services			Supporting services			Total
	Dog Operations	Education and Client Relations	Program Total	Management and General	Fundraising	Supporting Total	
Personnel expenses	\$ 2,084,493	673,412	2,757,905	260,314	231,116	491,430	3,249,335
Contract and professional services	352,515	147,280	499,795	88,253	442,895	531,148	1,030,943
Occupancy costs	122,707	8,181	130,888	1,145	2,727	3,872	134,760
Program supplies and equipment	146,690	6,262	152,952	2	2	4	152,956
In-kind goods and supplies	3,335	–	3,335	–	4,695	4,695	8,030
Publications, printing and postage	–	11,874	11,874	–	8,081	8,081	19,955
Office supplies and expenses	30,820	11,013	41,833	589	10,442	11,031	52,864
Travel, meetings and conferences	32,207	41,602	73,809	155	11,387	11,542	85,351
Advertising and promotion	153	33,014	33,167	–	2,039	2,039	35,206
Insurance expense	58,042	3,305	61,347	3,468	4,633	8,101	69,448
Technology and telecommunications	111,229	59,229	170,458	4,250	79,886	84,136	254,594
Interest expense	4,361	291	4,652	885	97	982	5,634
Total expenses before amortization and depreciation	2,946,552	995,463	3,942,015	359,061	798,000	1,157,061	5,099,076
Amortization expense	41,645	2,776	44,421	1,212	925	2,137	46,558
Depreciation expense	247,635	16,509	264,144	7,201	5,503	12,704	276,848
Total expenses	3,235,832	1,014,748	4,250,580	367,474	804,428	1,171,902	5,422,482
Expenses netted against revenue							
Special events expenses	–	–	–	–	(164,857)	(164,857)	(164,857)
Net expenses after amortization and depreciation	\$ 3,235,832	1,014,748	4,250,580	367,474	639,571	1,007,045	5,257,625

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Cash Flows
For the Nine-Month Period Ended September 30, 2024

Cash flows from operating activities	
Change in net assets	\$ (1,636,208)
Adjustments to reconcile change in net assets to cash used in operating activities	
Realized and unrealized gain on investments	(276,993)
Interest and dividends restricted for endowment	(14,074)
Depreciation	276,848
Amortization	46,558
Changes in operating assets and liabilities	
Grants and contributions receivable	125,326
Prepaid expenses	13,380
Accounts payable	103,445
Accrued expenses	69,599
Refundable advance	85,961
Obligation for software usage rights	(62,220)
Net cash used in operating activities	<u>(1,268,378)</u>
Cash flows from investing activities	
Net investment purchases	(95,559)
Additions to prepaid software usage rights	(68,108)
Additions to buildings, furniture, equipment and vehicles	<u>(217,963)</u>
Net cash used in investing activities	<u>(381,630)</u>
Cash flows from financing activities	
Interest and dividends restricted for endowment	<u>14,074</u>
Net cash provided by financing activities	<u>14,074</u>
Net change in cash, cash equivalents	(1,635,934)
Cash, cash equivalents at beginning of period	<u>3,925,087</u>
Cash, cash equivalents at end of period	<u>\$ 2,289,153</u>
Supplemental information	
Cash paid for interest	<u>\$ 5,634</u>

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Notes to Financial Statements

Nine-Month Period Ended September 30, 2024

(1) Summary of Significant Accounting Policies

(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 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.

For the fiscal year ended September 30, 2024, FSD changed its reporting year from December 31st to September 30th.

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

(b) Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

FSD is required to report information regarding its financial position and activities according to the following net asset classes:

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.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of FSD or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(d) Cash and Cash Equivalents

FSD considers all highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as a part of an investment portfolio or restricted by donors for long-term purposes, to be cash equivalents.

(e) Concentrations of Credit Risk

Financial instruments that potentially subject FSD to concentrations of credit risk consist primarily of cash and cash equivalents, grants and contributions receivable and investments. FSD places its cash and temporary cash investments with high credit quality financial institutions and limits its amount of credit exposure to any one financial institution. Funds are protected through the use of U.S. government backed securities and accounts insured by the Federal Deposit Insurance Corporation (FDIC).

Credit risk with respect to contributions receivable is considered by management to be limited because all contributions are receivable from organizations and individuals with a demonstrated history of payment.

Investment transactions are made by investment managers engaged by FSD, and the investments are monitored by management and the board of FSD. Though the market value of the investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of FSD.

(f) 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 maintenance 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.

(g) Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position. Fair value is determined as more fully described under note 1(h). Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Investment return consists of FSD's distributive share of any interest, dividends and capital gains and losses generated from investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(h) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Fair Value Measurements, Continued

Generally accepted accounting principles (GAAP) establish a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Assets are grouped at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, unless the investments are valued using the net asset value per share practical expedient. These levels are:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not an indication of risk or liquidity.

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. In addition, certain investments are reported using the "practical expedient" method. The practical expedient method allows net asset value per share or its equivalent to represent fair value for reporting purposes when the criteria for using this method are met. Investments valued using net asset value per share or its equivalent are not categorized within the hierarchy.

The carrying amount reported in the statement of financial position for cash and cash equivalents, investments, contributions receivable, accounts payable and accrued liabilities, and grants payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

(i) Revenue Recognition

Contributions and Grants: Contributions and grants are recognized when cash, securities, unconditional promises to give, or notification of a beneficial interest are received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return are not recognized until the conditions on which they depend have been substantially met. Should FSD substantially meet all the conditions in the same period that the contribution was received, and barring any further donor-imposed restrictions, FSD has elected to recognize the revenue in net assets without donor restrictions. Payments received in advance of conditions being met are recorded as a refundable advance.

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Revenue Recognition, Continued

All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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. Contributions and grants receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Grants and contributions receivable total \$138,450 at September 30, 2024 and are expected to be collected within one year. FSD uses the allowance method to determine uncollectible contributions receivable. The allowance is based on past collection experience and management's analysis of specific promises made. Uncollectible amounts are charged to the allowance in the year they are deemed uncollectible.

Special Events Revenue: Special events revenue is recognized during the period in which the event is held. Cash received but not yet earned is reported as a refundable advance.

Program Service Fees: FSD's program service fee revenue is related to dog adoption fees. Revenue is recognized at the time of adoption. Adoption fees paid in advance of the adoption are recorded as deferred revenue.

(j) In-Kind Donated Services and Goods

In-kind contributions are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. Contributed auction items are valued at the gross selling price received, and the proceeds are included in special event revenue. Contributed services are recognized as contributions if the services create or enhance nonfinancial assets and require specialized skills, are performed by people with those skills, and would be purchased by FSD. FSD received in-kind supplies totaling \$8,030 that were used in programmatic activities in 2024.

FSD relied upon 314,596 hours of non-technical services received from 380 volunteers during the current year. Although integral to accomplishing FSD's mission, these services did not qualify for recording herein.

(k) Estimates

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

(l) 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.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Income Taxes

FSD is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. Income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income during the nine-month period ended September 30, 2024.

Management is required to evaluate tax positions taken by FSD and recognize a tax liability (or asset) if FSD has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined there are none. FSD is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The three previous tax years remain subject to examination by the IRS.

(n) Subsequent Events

Management has evaluated subsequent events through February 07, 2025, the date that the independent auditor's report on these financial statements was available to be issued.

(2) Liquidity and Availability of Financial Assets

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	\$ 2,289,153
Grants and contributions receivable	<u>138,450</u>
Total financial assets	2,427,603
Less amounts not available to be used within one year:	
Board designated operating reserve	<u>(1,718,529)</u>
Financial assets available for use within one year	\$ <u>709,074</u>

FSD's operating reserve and board designated endowment consist of funds internally designated by the board of directors. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon and appropriations made from the board-designated endowment through board resolution. As part of its liquidity management, cash in excess of daily requirements is invested in interest bearing accounts and short-term investments that provide immediate liquidity.

(3) Grants and Contributions Receivable

Unconditional contributions receivable totaling \$138,450 at September 30, 2024 are due within one year. No allowance for doubtful grants and contributions receivable is considered necessary due to the nature and credit worthiness of the contributors.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(4) Investments

FSD's investment assets, which include private and publicly held investments, are dedicated to providing FSD's charitable objectives. Marketable and private alternative investments are exposed to various risks that may cause the reported value of FSD's investment assets to fluctuate from period to period and result in a material change to the net assets of the FSD. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment. The values of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions. Alternative investments are not publicly traded on national security market exchanges, are generally illiquid, and may be valued differently should readily available markets exist for such investments. The market value for alternative investments represents the pro-rata interest in the net assets of the investment and is based on financial information determined and reported by the investment manager. Based on inherent uncertainties in valuation of alternative investments, the reported market value of the investment may differ significantly from realizable values. Investments are stated at fair value.

The following table summarizes FSD's investments by the fair value hierarchy levels as of September 30, 2024:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Assets Measured at NAV (a)</u>
Cash and cash equivalents	\$ 12,955	12,955	-
Exchange-traded products	307,053	307,053	-
Real estate investment trust	34,037	-	34,037
Mutual funds			
Corporate bonds	821,850	821,850	-
International equities	597,390	597,390	-
Domestic equities	<u>1,011,790</u>	<u>1,011,790</u>	<u>-</u>
Total investments	<u>\$ 2,785,075</u>	<u>2,785,075</u>	<u>34,037</u>

- (a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in this column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

All assets have been valued using a market approach. The fair value of investments in marketable securities is based on quoted market values and other observable inputs (Level 1). The fair value of alternative investments is determined using NAV, or its equivalent, is based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by FSD.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(4) Investments, Continued

The following table summarizes the significant information related to investments measured at NAV, or its equivalent, as of September 30, 2024:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real estate investment trust (REIT)	\$34,037	N/A	Quarterly	N/A

The REIT was formed primarily for the purpose of engaging in the business of investing in and owning commercial and multifamily residential real estate properties and making other real estate-related investments located throughout the U.S.

Included in the total investments balance is \$390,280 that has been restricted by a donor to be held in perpetuity, and \$2,360,758 that has been designated by the board to be held in an endowment. See note 8.

(5) 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. During the nine-month period ended September 30, 2024, an additional \$68,108 has been capitalized and at September 30, 2024, a total value of \$337,291 of software usage rights is being amortized on a straight-line basis over 60 months. The Balance at September 30, 2024, net of accumulated amortization of \$119,017, is \$218,274. Amortization expense recorded herein for the nine-month period ended September 30, 2024 amounted to \$46,558.

(6) Property and Equipment

Property and equipment consisted of the following as of September 30, 2024:

Buildings and improvements	\$ 7,688,998
Furniture and equipment	506,778
Program vehicles	<u>64,505</u>
	8,260,281
Less: accumulated depreciation	(2,448,408)
Total property and equipment, net	\$ <u>5,811,873</u>

(7) 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 this reserve should equal approximately six months of expenses as estimated based on the final operating budget approved for the nine-month period ended September 30, 2024. At September 30, 2024, the operating reserve totaled \$1,718,529 or approximately four months of expenses.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(8) Net Assets

Net assets without donor restrictions

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. The balance of the board-designated endowment fund totaled \$2,360,758 at September 30, 2024. Annual distributions from the board-designated endowment fund are made at the discretion of the board, and no appropriations were made during the year.

Net assets with donor restrictions

Net assets subject to donor restrictions consisted of the following at September 30, 2024:

Donor-restricted endowments	\$ 390,280
Programs	70,000
Building improvements	92,193
Contributions receivable restricted by time	<u>138,450</u>
Total net assets with donor restrictions	<u>\$ 690,923</u>

Net assets totaling \$1,150,483 were released from restrictions during the nine-month period ended September 30, 2024 as a result of FSD satisfying the related purpose restrictions.

Endowment Funds

FSD's endowment net assets consist of the following at September 30, 2024:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total endowments</u>
Board-designated endowments	\$ 2,360,758	–	2,360,758
Unappropriated earnings	–	65,119	65,119
Perpetual endowments	<u>–</u>	<u>325,161</u>	<u>325,161</u>
Total endowment net assets	<u>\$ 2,360,758</u>	<u>390,280</u>	<u>2,751,038</u>

As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of FSD has interpreted the State of Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, FSD classifies as endowment net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(8) Net Assets, Continued

In accordance with UPMIFA, FSD considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purpose of the endowment funds.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other endowment resources.
- (7) The investment policies of FSD.

Following are the changes in the endowment net assets for the nine-month period ended September 30, 2024:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total endowments</u>
Endowment net assets, December 31, 2023	\$ 2,098,931	345,721	2,444,652
Contributions	—	—	—
Investment return	261,827	44,559	306,386
Appropriations	—	—	—
Endowment net assets, September 30, 2024	\$ <u>2,360,758</u>	<u>390,280</u>	<u>2,751,038</u>

Funds with Deficiency

From time to time, the fair values associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires FSD to retain as a fund in perpetual duration. There were no deficiencies of this nature as of September 30, 2024.

Return Objectives and Risk Parameters

FSD has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other areas supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds FSD must hold in perpetuity, as well as those of board-designated endowment funds. Under FSD's policies, endowment assets are invested in a manner that is intended to produce results that exceed an annual return of 4% over inflation, as measured by the Consumer Price Index (CPI), over a full market cycle of approximately seven to ten years, while assuming a low level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, FSD relies on a total return strategy in which investment returns are achieved through both current yield (dividend and interest) and capital appreciation (realized and unrealized). FSD targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

The Board of Directors 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. No distributions have been made from the fund during the nine-month period ended September 30, 2024.

Freedom Service Dogs, Inc.
Notes to Financial Statements, Continued

(9) Retirement Plan

All full-time employees are eligible to participate in FSD's 401(k) retirement plan after having completed 12 months of service by the next plan entry date. FSD will match 100% of a participant's salary deferrals up to the first 3% and 50% of salary deferrals on the next 2% of a participant's eligible compensation. FSD may make profit-sharing contributions each year at their discretion. For the nine-month period ended September 30, 2024, FSD made matching contributions to the Plan totaling \$49,372.