

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2019

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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, 2019, 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, 2019 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
April 17, 2020

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
ASSETS				
Current Assets				
Cash and cash equivalents	\$4,017,903	\$ 131,856	\$4,149,759	\$4,933,632
Accounts receivable	54,124	--	54,124	-
Prepaid expenses & deposits	--	--	--	10,639
	<u>4,072,027</u>	<u>131,856</u>	<u>4,203,883</u>	<u>4,944,271</u>
Investments				
Endowment	1,812,906	--	1,812,906	--
REIT account	<u>34,298</u>	<u>--</u>	<u>34,298</u>	<u>34,298</u>
	<u>1,847,204</u>	<u>--</u>	<u>1,847,204</u>	<u>34,298</u>
Property and Equipment				
Buildings and improvements	7,112,388	--	7,112,388	7,064,256
Furniture and equipment	161,647	--	161,647	147,800
Program vehicles	<u>118,197</u>	<u>--</u>	<u>118,197</u>	<u>64,698</u>
	<u>7,392,232</u>	<u>--</u>	<u>7,392,232</u>	<u>7,276,754</u>
Less: accumulated depreciation	<u>(953,774)</u>	<u>--</u>	<u>(953,774)</u>	<u>(686,578)</u>
	<u>6,438,458</u>	<u>--</u>	<u>6,438,458</u>	<u>6,590,176</u>
	<u>\$12,357,689</u>	<u>\$131,856</u>	<u>\$12,489,545</u>	<u>\$11,568,745</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 50,509	\$ --	\$ 50,509	\$ 31,014
Accrued payroll liabilities	174,240	--	174,240	110,199
Notes payable, current	113,655	--	113,655	110,237
Deferred revenue	<u>21,174</u>	<u>--</u>	<u>21,174</u>	<u>14,000</u>
	<u>359,578</u>	<u>--</u>	<u>359,578</u>	<u>265,450</u>
Notes Payable, long term	95,389	--	95,389	721,751
Net assets				
Without donor restrictions				
Undesignated	1,610,402	--	1,610,402	1,191,073
Investment in Property and equipment	6,229,414	--	6,229,414	5,758,188
Designated by the Board for:				
Operating reserve	2,250,000	--	2,250,000	1,940,000
Endowment	<u>1,812,906</u>	<u>--</u>	<u>1,812,906</u>	<u>1,381,961</u>
With donor restrictions	<u>--</u>	<u>131,856</u>	<u>131,856</u>	<u>310,322</u>
	<u>11,902,722</u>	<u>131,856</u>	<u>12,034,578</u>	<u>10,581,544</u>
	<u>\$12,357,689</u>	<u>\$131,856</u>	<u>\$12,489,545</u>	<u>\$11,568,745</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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 2,954,224	\$ 15,000	\$2,969,224	\$4,093,733
Private & government grants	1,271,203	--	1,271,203	1,116,093
In-kind donated services & goods	64,299	--	64,299	218,864
Fundraising events (net of direct donor benefits of \$318,358)	698,756	--	698,756	766,178
Unrealized gains	359,783	--	359,783	--
Fees, investment and other income	47,908	--	47,908	64,581
	<u>5,396,173</u>	<u>15,000</u>	<u>5,411,173</u>	<u>6,259,449</u>
Net assets released by satisfaction of timing or purpose restrictions	<u>193,466</u>	<u>(193,466)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	5,589,639	(178,466)	5,411,173	6,259,449
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	2,310,242	--	2,310,242	1,993,754
Public education & other	846,602	--	846,602	830,351
	<u>3,156,844</u>	<u>--</u>	<u>3,156,844</u>	<u>2,824,105</u>
Support Services				
Management and general	233,233	--	233,233	165,341
Financial development	568,062	--	568,062	617,969
	<u>801,295</u>	<u>--</u>	<u>801,295</u>	<u>783,310</u>
Total expenses	<u>3,958,139</u>	<u>--</u>	<u>3,958,139</u>	<u>3,607,415</u>
Change in net assets	1,613,500	(178,466)	1,453,034	2,652,034
Net assets, beginning of year	<u>10,271,222</u>	<u>310,322</u>	<u>10,581,544</u>	<u>7,929,510</u>
Net assets, end of year	<u>\$11,902,722</u>	<u>\$131,856</u>	<u>\$12,034,578</u>	<u>\$10,581,544</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, 2019
(With Comparative Totals for 2018)

	<u>Program Services</u>			<u>Supporting Services</u>			
		Education	Program	Management	Financial		
	<u>Dog</u>	<u>& Client</u>	<u>Total</u>	<u>and</u>	<u>Development</u>	<u>2019</u>	<u>2018</u>
	<u>Training</u>	<u>Relations</u>		<u>General</u>			
Personnel expenses	\$ 1,258,020	\$ 426,487	\$1,684,504	\$ 147,635	\$ 226,743	\$2,058,885	\$1,669,725
Contract & professional services	376,327	237,268	613,595	68,243	209,184	891,022	882,663
Occupancy costs	116,455	7,419	123,874	1,911	2,412	128,197	151,538
Supplies & equipment	158,718	13,198	171,916	1,219	2,844	175,979	234,117
Publications, printing & postage	14,669	26,538	41,207	1,032	24,810	67,049	82,031
Office supplies & expenses	26,158	6,964	33,122	2,141	26,800	62,063	69,643
Travel, meetings & conferences	68,886	51,308	120,194	889	14,209	135,292	115,162
Advertising & promotion	4,554	6,824	11,378	28	11,124	22,530	20,480
Insurance & miscellaneous	17,532	884	18,416	1,934	1,465	21,815	17,355
Technology & telecommunications	<u>30,072</u>	<u>53,789</u>	<u>83,861</u>	<u>1,087</u>	<u>43,163</u>	<u>128,111</u>	<u>102,006</u>
	2,071,391	830,679	2,902,070	226,119	562,754	3,690,943	3,344,720
Depreciation expense	<u>238,851</u>	<u>15,923</u>	<u>254,774</u>	<u>7,114</u>	<u>5,308</u>	<u>267,196</u>	<u>262,695</u>
Total	<u>\$2,310,242</u>	<u>\$846,602</u>	<u>\$3,156,844</u>	<u>\$233,233</u>	<u>\$568,062</u>	<u>\$3,958,139</u>	<u>\$3,607,415</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,453,034	\$2,652,034
Adjustments to reconcile to net cash provided by operating activities:		
Unrealized gains	(359,783)	--
Depreciation	267,196	262,695
Changes in operating assets and liabilities:		
(Increase) in marketable securities	--	(377)
(Increase) decrease in accounts receivable	(54,124)	82,000
Decrease in prepaid expenses & deposits	10,639	1,752
Increase (decrease) in accounts payable	19,495	(1,891)
Increase in deferred revenue	7,174	14,000
Increase in accrued payroll liabilities	<u>64,041</u>	<u>76,022</u>
Net cash flow from operating activities	1,407,672	3,086,235
Cash flow from financing activity:		
Repayments of notes payable to bank	(622,944)	(648,253)
Cash flow from investing activity:		
Purchases (net) of investments for endowment fund	(1,453,123)	--
Additions to buildings and improvements	(48,132)	(144,108)
Additions to furniture, equipment & vehicles	<u>(67,346)</u>	<u>(47,916)</u>
	(1,568,601)	(192,024)
CHANGE IN CASH AND CASH EQUIVALENTS	(783,873)	2,245,958
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,933,632</u>	<u>2,687,674</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$4,149,759</u>	<u>\$4,933,632</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$14,032</u>	<u>\$3,107</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2019

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 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. 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 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 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, 2019

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 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 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.

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, 2018, 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.

The current years' value of dog care and other program supplies, amounting to \$49,261, are recorded in the statement of functional expenses, herein, under

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

g. Donated services, supplies and materials (continued)

"supplies & equipment." Technical services received during the current year, worth \$15,038, are also recorded in the statement of functional expenses, herein, under "contract & professional services."

Another \$106,430 of qualified goods and services were received for FSD's fundraising events, which is recorded in the statement of activity, herein, as part of the \$318,358 of "direct donor benefits" which is netted with the associated gross revenue from fundraising events.

FSD relied upon 27,505 hours of non-technical services received from 650 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 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 the time expended as captured on staff timesheets.

j. Subsequent events review

Management has evaluated subsequent events through April 17, 2020, the date that the independent auditor's report on these financial statements was available to be issued. (See Note 6)

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, 2019 and 2018. 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 exceed federally insured limits. FSD has never experienced any losses related to those balances. At December 31, 2019 and 2018, FSD had \$2,032,347 and \$3,890,811 of cash in excess of insured limits, respectively.

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

I. Liquidity and availability

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 within the "without donor restriction" net asset class:

Undesignated	\$1,981,576
Board designated operating reserve	<u>2,250,000</u>
	<u>\$4,231,576</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: 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, another donor restricted contribution of \$75,000 was received. During 2019, FSD had realized investment income (net of fees) of \$44,562 and unrealized gains of \$311,383, resulting in a fund balance at December 31, 2019 of \$1,812,906. The Board approved spending policy requires maximum distributions starting in 2020 of 4% of total market value based on a 3-year rolling average. The underlying investment policy requires diversification into 4 categories, each with specified minimum/maximum allocation percentages within the total portfolio, intended to limit the risk associated with any one category. As of December 31, 2019, 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 has a fixed 3.07% interest rate and requires minimum monthly payments of \$11,214. At various times during 2017, 2018 and 2019, FSD has 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 and the minimum principal payments due over each of the next two years were as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 113,655
2021	<u>95,389</u>
Total	209,044
Less: current portion	<u>(113,655)</u>
Long-term portion	<u>\$95,389</u>

Interest expense incurred during 2019 and 2018 of \$10,814 and \$36,319, respectively, is recorded, herein, as a component of "occupancy costs".

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2019

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, 2019, this reserve should equal six months of expenses as anticipated in the final operating budget approved for 2020, which amounted to \$2,250,000.

Note 5: Recently Issued Accounting Pronouncements

In May 2014, FASB issued Update No. 2014-09 "Revenue from Contracts with Customers (Topic 606)". Update No. 2015-14 deferred the effective date to fiscal periods beginning after December 15, 2018. The Update represents the convergence of FASB and IASB standards on revenue recognition and creates a principle-based revenue recognition framework that replaces nearly all existing USGAAP earned revenue recognition guidance. The Update also requires expanded disclosures surrounding revenue recognition.

FSD has determined that this standard had no impact in 2019 since its one government fee-based contract is equally spent and earned within a fiscal year cycle, with the exception of \$21,174 received prior to December 31, 2019 but not yet spent. These funds are recorded as a liability, herein, under "deferred revenue".

Note 6: Subsequent Events

FSD's Board of Directors approved paying the remaining note payable on the building loan in January 2020. A final loan payment of \$200,428 was made on January 17, 2020.

FSD modified operations in 2020 as a result of Covid-19 in order to ensure the health, safety, and well-being of its volunteers, clients, staff, and supporters. The facility was temporarily closed beginning on March 20, 2020 to adhere to stay at home orders. Dogs and puppies on site were moved to volunteer foster homes with only essential dog care and veterinary care being done on-site, staff capable of working off-site began working from their homes, and on-site volunteer work was suspended until further notice. Proactive measures taken to respond to Covid-19 include revising the budget to anticipate a 20% reduction in revenue and limiting spending to mission critical expenditures. The budget modifications caused the amount of the board designated operating reserve to change from \$2,250,000 to \$2,150,000.

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FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2019

Note 7: Net Assets with Donor Restrictions

During 2019 FSD incurred the following activity within the "net assets with donor restrictions" class, resulting in a balance at December 31, 2019 of \$131,856:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2018</u>	<u>Current year</u>		<u>Balance at Dec 31, 2019</u>
		<u>Additions</u>	<u>Releases</u>	
Foundation grants:				
- With purpose restrictions	\$180,322	\$ --	\$ (63,466)	\$116,856
- With timing restrictions	105,000	--	(105,000)	--
Donation for 2019 dog training	25,000	--	(25,000)	--
Donation for 2020 dog training	<u>--</u>	<u>15,000</u>	<u>--</u>	<u>15,000</u>
	<u>\$310,322</u>	<u>\$15,000</u>	<u>\$(193,466)</u>	<u>\$131,856</u>