

Freedom Service Dogs, Inc.

Financial Statements

December 31, 2023

(With Independent Auditor's Report Thereon)

*Kundinger, Corder
& Montoya, P.C.*

Certified Public Accountants



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 December 31, 2023, and the related statements of activities, 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 the Organization as of December 31, 2023, and the changes in its net assets and its cash flows for the year 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.

Other Matter

As part of our audit of the 2023 financial statements, we also audited the adjustment described in Note 10 that was applied to restate the 2022 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2022 financial statements of Freedom Service Dogs, Inc. other than with respect to the adjustment, and, accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements as a whole.

Kundinger, Corder & Montoya, P.C.

June 12, 2024

Freedom Service Dogs, Inc.
Statement of Financial Position
December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ 3,857,586	—	3,857,586
Restricted cash and cash equivalents	—	67,501	67,501
Grants and contributions receivable	—	263,776	263,776
Prepaid expenses	33,224	—	33,224
Investments			
Endowment (note 3)	2,098,931	278,220	2,377,151
REIT account	35,372	—	35,372
Intangible assets, net (note 4)	196,723	—	196,723
Property and equipment, net (note 5)	5,823,729	—	5,823,729
Total assets	<u>\$ 12,045,565</u>	<u>609,497</u>	<u>12,655,062</u>
Liabilities and Net Assets			
Accounts payable	\$ 44,037	—	44,037
Accrued expenses	281,976	—	281,976
Refundable advance	50,000	—	50,000
Obligation for software usage rights (note 4)	60,758	—	60,758
Total liabilities	<u>436,771</u>	<u>—</u>	<u>436,771</u>
Net assets (notes 6 and 7)			
Without donor restrictions			
Undesignated	1,036,134	—	1,036,134
Investment in property and equipment	5,823,729	—	5,823,729
Board designated			
Operating reserve	2,650,000	—	2,650,000
Endowment	2,098,931	—	2,098,931
Total without donor restrictions	<u>11,608,794</u>	<u>—</u>	<u>11,608,794</u>
With donor restrictions	<u>—</u>	<u>609,497</u>	<u>609,497</u>
Total net assets	<u>11,608,794</u>	<u>609,497</u>	<u>12,218,291</u>
Commitments (note 9)			
Total liabilities and net assets	<u>\$ 12,045,565</u>	<u>609,497</u>	<u>12,655,062</u>

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Activities
For the Year Ended December 31, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue, Gains and Support			
Contributions and grants	\$ 2,632,066	1,555,927	4,187,993
Government grants	125,830	—	125,830
In-kind donated services and goods	4,910	—	4,910
Fundraising events (net of direct donor benefits of \$187,424)	827,187	—	827,187
Investment return, net	268,586	29,200	297,786
Interest and dividend income	133,745	—	133,745
Adoption fees and other income	49,740	—	49,740
Net assets released from restrictions (note 6)	1,257,563	(1,257,563)	—
Total revenue, gains and support	5,299,627	327,564	5,627,191
Expenses			
Program services			
Dog operations	4,364,357	—	4,364,357
Education and client relations	1,361,442	—	1,361,442
Total program services	5,725,799	—	5,725,799
Supporting services			
Management and general	452,843	—	452,843
Fundraising	782,714	—	782,714
Total supporting services	1,235,557	—	1,235,557
Total expenses	6,961,356	—	6,961,356
Change in net assets	(1,661,729)	327,564	(1,334,165)
Net assets at beginning of year, as previously reported	13,570,331	100,412	13,670,743
Prior period adjustment (note 10)	(299,808)	181,521	(118,287)
Net assets at beginning of year, as restated	13,270,523	281,933	13,552,456
Net assets at the end of year	\$ 11,608,794	609,497	12,218,291

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2023

	Program services			Supporting services			
	Dog Operations	Education and Client Relations	Program Total	Management and General	Fundraising	Supporting Total	Total
Personnel expenses	\$ 2,712,107	828,309	3,540,416	320,528	352,400	672,928	4,213,344
Contract and professional services	531,696	305,238	836,934	107,633	396,843	504,476	1,341,410
Occupancy costs	176,327	10,254	186,581	3,406	3,406	6,812	193,393
Program supplies and equipment	210,756	7,260	218,016	—	—	—	218,016
In-kind goods and supplies	4,910	—	4,910	—	—	—	4,910
Publications, printing and postage	20,189	23,288	43,477	1,732	19,094	20,826	64,303
Office supplies and expenses	90,059	10,248	100,307	1,594	39,152	40,746	141,053
Travel, meetings and conferences	69,007	71,071	140,078	1,188	16,890	18,078	158,156
Advertising and promotion	4,832	48,352	53,184	93	46,547	46,640	99,824
Insurance expense	103,065	6,871	109,936	4,696	7,111	11,807	121,743
Technology and telecommunications	164,885	31,981	196,866	5,793	41,660	47,453	244,319
Total expenses before amortization and depreciation	4,087,833	1,342,872	5,430,705	446,663	923,103	1,369,766	6,800,471
Amortization expense	—	—	—	—	40,855	40,855	40,855
Depreciation expense	276,524	18,570	295,094	6,180	6,180	12,360	307,454
Total expenses	4,364,357	1,361,442	5,725,799	452,843	970,138	1,422,981	7,148,780
Expenses netted against revenue							
Special events expenses	—	—	—	—	(187,424)	(187,424)	(187,424)
Net expenses after amortization and depreciation	\$ 4,364,357	1,361,442	5,725,799	452,843	782,714	1,235,557	6,961,356

See the accompanying notes to the financial statements.

Freedom Service Dogs, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities

Change in net assets	\$ (1,334,165)
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities	
Realized and unrealized gain on investments	(215,460)
Interest and dividends restricted for endowment	(82,326)
Contributions restricted for endowment	(67,501)
Depreciation	307,454
Amortization	40,855
Changes in operating assets and liabilities	
Grants and contributions receivable	(155,725)
Prepaid expenses	(14,054)
Accounts payable	(54,572)
Accrued expenses	65,151
Refundable advance	50,000
Obligation for software usage rights	(20,252)
Net cash used in operating activities	<u>(1,480,595)</u>

Cash flows from investing activities

Net investment purchases	(194,986)
Additions to prepaid software usage rights	(88,583)
Additions to buildings and improvements	(42,297)
Additions to furniture, equipment and vehicles	<u>(124,466)</u>
Net cash used in investing activities	<u>(450,332)</u>

Cash flows from financing activities

Interest and dividends restricted for endowment	82,326
Contributions restricted for endowment	<u>67,501</u>
Net cash provided by financing activities	<u>149,827</u>

Net change in cash, cash equivalents and restricted cash	(1,781,100)
Cash, cash equivalents and restricted cash at beginning of year	<u>5,706,187</u>
Cash, cash equivalents and restricted cash at end of year	<u><u>\$ 3,925,087</u></u>

See the accompanying notes to the financial statements.

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

(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.

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.

(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.

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

(1) Summary of Significant Accounting Policies, Continued

(e) Concentrations of Credit Risk

Financial instruments that potentially subject FSD to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments 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).

(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. Generally accepted accounting principles 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.

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

(1) Summary of Significant Accounting Policies, Continued

(h) Fair Value Measurements, Continued

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 fair values are reported at fair value based on quoted prices in active markets.

(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. 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 \$263,776 at December 31, 2023 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.

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

(1) Summary of Significant Accounting Policies, Continued

(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 \$4,910 that were used in programmatic activities in 2023.

FSD relied upon 391,890 hours of non-technical services received from 365 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.

(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. During 2023, FSD did not incur any unrelated business income tax.

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 June 12, 2024, the date that the independent auditor's report on these financial statements was available to be issued.

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

(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	\$ 3,857,586
Grants and contributions receivable	<u>263,776</u>
Total financial assets	4,121,362
Less amounts not available to be used within one year:	
Board designated operating reserve	<u>(2,650,000)</u>
Financial assets available for use within one year	\$ <u>1,471,362</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) Investments

The following table summarizes FSD's investments at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31, 2023:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 10,705	10,705	-	-
Exchange-traded products	365,078	365,078	-	-
Mutual funds				
Corporate bonds	584,173	584,173	-	-
International equities	536,900	536,900		
Domestic equities	<u>880,295</u>	<u>880,295</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>2,377,151</u>	<u>2,377,151</u>	<u>-</u>	<u>-</u>

All assets have been valued using a market approach. Fair values of assets in Level 1 are based on quoted prices in active markets.

(4) 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 2023, an additional \$88,583 has been capitalized and at December 31, 2023, a total value of \$269,183 of software usage rights is being amortized on a straight-line basis over 60 months. Amortization expense recorded herein for 2023 amounted to \$40,855.

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

(5) Property and Equipment

Property and equipment consisted of the following as of December 31, 2023:

Buildings and improvements	\$ 7,480,069
Furniture and equipment	450,713
Program vehicles	<u>64,505</u>
	7,995,287
Less: accumulated depreciation	<u>(2,171,558)</u>
Total property and equipment, net	\$ <u>5,823,729</u>

(6) 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 \$2,098,931 at December 31, 2023. 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 December 31, 2023:

Donor-restricted endowments	\$ 345,721
Contributions receivable restricted by time	<u>263,776</u>
Total net assets with donor restrictions	\$ <u>609,497</u>

Net assets totaling \$1,257,563 were released from restrictions during 2023 as a result of FSD satisfying the related purpose restrictions.

Endowment Funds

FSD's endowment net assets consist of the following at December 31, 2023:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total endowments</u>
Board-designated endowments	\$ 2,098,931	—	2,098,931
Unappropriated earnings	—	20,560	20,560
Perpetual endowments	<u>—</u>	<u>325,161</u>	<u>325,161</u>
Total endowment net assets	\$ <u>2,098,931</u>	<u>345,721</u>	<u>2,444,652</u>

As required by generally accepted accounting principles, 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

(6) 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 year ended December 31, 2023:

	Without donor restrictions	With donor restrictions	Total endowments
Endowment net assets, December 31, 2022, as restated (see note 10)	\$ 1,830,345	249,020	2,079,365
Contributions	—	67,501	67,501
Investment return	268,586	29,200	297,786
Appropriations	—	—	—
Endowment net assets, December 31, 2023	<u>\$ 2,098,931</u>	<u>345,721</u>	<u>2,444,652</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 December 31, 2023.

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 percent 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 2023.

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

(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 as of December 31, 2023, this reserve should equal approximately six months of expenses as estimated based on the final operating budget approved for 2023, which amounted to \$2,650,000.

(8) 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 \$404,198 cost of this activity is not directly attributable to either the program or fund-raising components of the activity. These joint costs were allocated \$242,519 to program ("Education and Client Relations") and \$161,679 to "Fundraising", both under "Contract and Professional Services", in the Statement of Functional Expenses, herein.

(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. During 2023, FSD made matching contributions to the Plan totaling \$116,828.

(10) Prior Period Adjustment

During the 2023 audit, it was determined that depreciation on property and equipment had been miscalculated from 2017-2022, resulting in depreciation expense being understated by a cumulative total of \$118,287, respectively. Additionally, it was determined that both the board-designated endowment and donor restricted endowment were commingled within net assets without donor restriction, resulting in the net assets with donor restriction balance being understated by \$181,521 at December 31, 2023. Corrections to the accounts for 2022 were made resulting in the following restated balances for 2022:

	December 31, 2022 As Originally Stated	Correction	December 31, 2022 As Restated
<u>Statement of Financial Position</u>			
Property and equipment, net	\$ 6,082,707	(118,287)	5,964,420
Net assets without donor restrictions	13,570,331	(299,808)	13,270,523
Net assets with donor restrictions	100,412	181,521	281,933
Total net assets	13,670,743	(118,287)	13,552,456
<u>Statement of Activities</u>			
Depreciation expense	\$ 266,497	118,287	384,784
Total expenses	5,755,592	118,287	5,873,879
Change in net assets	(828,434)	(118,287)	(946,721)

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

(11) Supplemental Cash Flow Information

Reconciliation of cash and cash equivalents and restricted cash at December 31, 2023:

Cash and cash equivalents	\$ 3,857,586
Restricted cash	<u>67,501</u>
Total cash and cash equivalents and restricted cash	\$ <u>3,925,087</u>