

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2009

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Freedom Service Dogs, Inc.

We have audited the accompanying statement of financial position of Freedom Service Dogs, Inc. as of December 31, 2009 and the related statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements, which were for the fifteen month period ended December 31, 2008 due to a fiscal year end change; and, in our report dated April 22, 2009, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Freedom Service Dogs, Inc. at December 31, 2009 and the results of its operations 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.

Davis & Co., CPAs, P.C.
Certified Public Accountants

Highlands Ranch, Colorado
March 12, 2010

FREEDOM SERVICE DOGS, INC.
Statement of Financial Position
December 31, 2009
(With Comparative Totals for December 31, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$386,459	\$566,815
Grants & contributions receivable	2,698	30,725
Prepaid expenses & deposits	<u>113,800</u>	<u>113,444</u>
	502,957	710,984
Fixed assets		
Furniture and equipment	31,947	31,947
Program vehicle	51,749	51,749
Leasehold improvements	<u>250,064</u>	<u>173,229</u>
	333,760	256,925
Less: accumulated depreciation	<u>(54,815)</u>	<u>(12,324)</u>
	<u>278,945</u>	<u>244,601</u>
	<u>\$781,902</u>	<u>\$955,585</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,509	\$ 21,260
Accrued payroll liabilities	1,290	6,084
Note payable to landlord	<u>156,179</u>	<u>110,395</u>
	160,979	137,739
Net assets		
Unrestricted	<u>620,923</u>	<u>817,846</u>
	<u>\$781,902</u>	<u>\$955,585</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Activity
For the Fifteen Months Ended December 31, 2009
(With Comparative Totals for the Fifteen Months Ended September 30, 2008)

	<u>2009</u>	<u>2008</u>
PUBLIC SUPPORT AND REVENUE		
Direct and indirect contributions	\$ 327,795	\$ 217,981
Private grants	380,454	300,274
In-kind donations	41,949	132,671
Fundraising events (net of direct donor benefits of \$16,035)	68,290	17,562
Fees, interest and other	<u>56,519</u>	<u>73,379</u>
Total public support and revenue	875,007	741,867
FUNCTIONAL EXPENSES		
Program Services		
Dog training & maintenance	575,125	542,544
Public education & other	<u>196,354</u>	<u>196,141</u>
	771,479	738,685
Support Services		
Management and general	78,931	60,649
Financial development	<u>221,520</u>	<u>113,356</u>
	<u>300,451</u>	<u>174,005</u>
Total expenses	<u>1,071,930</u>	<u>912,690</u>
Change in net assets	(196,923)	(170,823)
Net assets, beginning of year	<u>817,846</u>	<u>988,669</u>
Net assets, end of year	<u>\$620,923</u>	<u>\$817,846</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Statement of Functional Expenses

For the Fifteen Months Ended December 31, 2009

(With Comparative Totals for the Fifteen Months ended September 30, 2008)

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Dog Training</u>	<u>Education & Other</u>	<u>Program Total</u>	<u>Management and</u>		<u>Financial Development</u>	
				<u>General</u>	<u>Development</u>		
						<u>2009</u>	<u>2008</u>
Personnel expenses	\$317,515	\$103,216	\$420,731	\$33,537	\$49,231	\$503,499	\$481,377
Contract & professional services	9,189	3,323	12,512	2,978	33,206	48,696	39,061
Occupancy costs	71,631	23,215	94,846	23,611	10,927	129,384	121,556
Boarding & veterinary care	98,502	--	98,502	--	--	98,502	93,959
Program supplies & equipment	29,131	636	29,767	--	--	29,767	57,777
Publications, printing & postage	1,384	18,694	20,078	140	41,253	61,471	28,578
Office supplies & expenses	5,716	2,160	7,876	5,865	4,830	18,571	17,773
Conferences, travel & meetings	11,263	31,392	42,655	2,059	1,714	46,428	22,838
Advertising & promotion	50	360	410	3,932	76,145	80,487	11,184
Insurance & miscellaneous	1,637	5,710	7,347	3,495	1,792	12,634	12,375
Repairs & maintenance	--	--	--	--	--	--	<u>16,637</u>
	<u>546,018</u>	<u>188,706</u>	<u>734,724</u>	<u>75,617</u>	<u>219,098</u>	<u>1,029,439</u>	<u>903,115</u>
Depreciation expense	<u>29,107</u>	<u>7,648</u>	<u>36,755</u>	<u>3,314</u>	<u>2,422</u>	<u>42,491</u>	<u>9,575</u>
Total	<u>\$575,125</u>	<u>\$196,354</u>	<u>\$771,479</u>	<u>\$78,931</u>	<u>\$221,520</u>	<u>\$1,071,930</u>	<u>\$912,690</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.
Statement of Cash Flows
For the Fifteen Months Ended December 31, 2009
(With Comparative Totals for the Fifteen Months Ended September 30, 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$(196,923)	\$(170,823)
Adjustments to reconcile to net cash provided by operating activities:		
Donated fixed assets	--	(51,749)
Depreciation	42,491	9,575
Changes in operating assets and liabilities:		
(Increase) decrease in grants & contributions receivable	28,027	(30,725)
(Increase) in prepaid expenses & deposits	(356)	(100,730)
Increase (decrease) in accounts payable	(17,751)	20,360
Increase (decrease) in accrued payroll liabilities	<u>(4,794)</u>	<u>6,084</u>
Net cash flow from operating activities	(149,306)	(318,008)
Cash flow from financing activity – note from landlord	45,784	110,395
Cash flow from investing activity – fixed asset additions	<u>(76,835)</u>	<u>(199,926)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(180,354)	(407,539)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>566,815</u>	<u>974,354</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$386,459</u>	<u>\$566,815</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$2,752</u>	<u>\$17,290</u>
Interest expense – cash basis	<u>\$16,711</u>	<u>\$13,811</u>

The accompanying notes are a part of this statement.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2009

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 rescues dogs from area shelters and trains them to assist people with mobility impairments. 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 adopts out dogs to a qualified pet home when they are unable to meet all of the requirements for becoming a service dog. FSD also provides education to the general public about all types of assistance dogs.

Effective January of 2008, FSD is now based in a much larger facility in Englewood, CO (See Note 2) which has over four times the capacity of its previous location. FSD serves all of Colorado and is supported primarily by individual contributions and private sector grants.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted - Resources not subject to donor-imposed restrictions.

Temporarily restricted - Resources subject to donor-imposed restrictions that will be satisfied either by the actions of FSD or the passage of time. There were no donor restricted resources on hand at either year end.

c. Cash and cash equivalents and marketable securities

FSD considers all demand deposits, savings accounts, and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents provided they are not legally restricted as to timely withdrawal. All cash equivalents at December 31, 2009 were FDIC insured.

d. Property and equipment

FSD follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. The fair value of donated assets is similarly capitalized. Repairs and other renewals of items are charged to expense

(Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property and equipment (continued)

when incurred. Depreciation of furniture, equipment and leasehold improvements is provided using the straight-line basis and estimated useful lives of five to fifteen years. When items are disposed of the related cost and accumulated depreciation is eliminated from the accounts and any gain or loss is reflected in operations.

e. Revenue recognition

All contributions are considered to be available for unrestricted use 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 temporarily restricted support that increases that net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, FSD reports the support as unrestricted.

f. Donated services and materials

In-kind contributions of boarding and veterinary care are recorded at their estimated fair values since both would typically need to be purchased if not provided by donation. The current and prior years' values of \$34,567 and \$34,022, respectively, are recorded herein under "boarding & veterinary care." Other contributed services are also recorded at estimated fair value if they require specialized skills and would have been purchased if not donated. Qualified services during 2008 worth \$17,900 were recorded herein under "contract & professional services". During 2009 and 2008, FSD also received program supplies and equipment worth \$7,382 and \$22,000, respectively, which are recorded under "program supplies & equipment" herein. \$7,000 of donated repairs were recorded during 2008.

The donation of a specially equipped van for program use worth \$51,749 was received and recorded herein during 2008 as a component of fixed assets.

g. 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.

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FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

h. Functional expenses (continued)

Expenses 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 upon time expended.

i. Tax status

The Internal Revenue Service recognizes the tax-exempt status of FSD under Section 501(c)(3) of the Internal Revenue Code and FSD had no revenue from unrelated sources during the current year. Therefore, a provision for income taxes is not necessary.

Note 2: Lease Commitment and Note Payable to Landlord

On September 7, 2007 FSD signed an agreement to lease for seven years a substantially larger facility for its office and program space in Englewood, CO. Occupancy commenced February 1, 2008 after the completion of necessary renovations by the lessor/landlord. Certain other renovations were completed by FSD subsequent to moving in. The minimum rentals required under the agreement over the remaining five years of the initial seven year lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$109,573
2011	115,340
2012	121,107
2013	135,524
2014	<u>164,840</u>
Total commitment	<u>\$646,384</u>

The agreement includes two options to extend the lease for an additional five years each. Management, recognizing the need for more service dogs in the community, has substantially expanded the number of qualified dogs in the training program. Rent expense incurred during the current year of \$89,869 is included herein in the statement of functional expenses as the primary component of "occupancy costs".

In order to finance its pro-rata share of leasehold improvements and other costs associated with the new space, FSD has borrowed \$156,179 from the lessor/landlord which is being repaid at a monthly rate of \$3,016 (8% interest) over a five year period ending January of 2013. FSD was also required by the underlying agreement to escrow a \$100,000 construction deposit which is scheduled to be refunded \$40,000 on February 1, 2010 and \$60,000 on February 1, 2011.