

FREEDOM SERVICE DOGS, INC.

FINANCIAL STATEMENTS

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DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Freedom Service Dogs
Englewood, Colorado

We have audited the accompanying financial statements of Freedom Service Dogs (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 & 2015, and the related statements of activities, functional expenses and cash flows for the years 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 as of December 31, 2016 & 2015 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Davis + Co., CPAs, P.C.

Highlands Ranch, Colorado
March 14, 2017

FREEDOM SERVICE DOGS, INC.
Statements of Financial Position
December 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u> <u>2016</u>	<u>2015</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$1,897,355	\$ --	\$1,897,355	\$3,000,638
Marketable securities	--	34,240	34,240	--
Prepaid expenses & deposits	<u>25,082</u>	<u>--</u>	<u>25,082</u>	<u>--</u>
	1,922,437	34,240	1,956,677	3,000,638
Construction in progress	--	--	--	3,506,727
Fixed assets				
Buildings and improvements	6,253,589	--	6,253,589	--
Furniture and equipment	89,884	--	89,884	48,131
Program vehicles	64,698	--	64,698	64,698
Leasehold improvements	<u>--</u>	<u>--</u>	<u>--</u>	<u>250,542</u>
	6,408,171	--	6,408,171	363,371
Less: accumulated depreciation	<u>(171,803)</u>	<u>--</u>	<u>(171,803)</u>	<u>(243,747)</u>
	<u>6,236,368</u>	<u>--</u>	<u>6,236,368</u>	<u>119,624</u>
	<u><u>\$8,158,805</u></u>	<u><u>\$34,240</u></u>	<u><u>\$8,193,045</u></u>	<u><u>\$6,626,989</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 16,124	\$ --	\$ 16,124	\$ 60,792
Accrued payroll liabilities	70,650	--	70,650	42,337
Restricted advance project funding	--	--	--	411,111
Notes payable, current	<u>65,421</u>	<u>--</u>	<u>65,421</u>	<u>63,223</u>
	152,195	--	152,195	577,463
Notes payable, long term	2,185,790	--	2,185,790	2,251,199
Net assets				
Unrestricted	5,820,820	--	5,820,820	1,445,264
Temporarily restricted	<u>--</u>	<u>34,240</u>	<u>34,240</u>	<u>2,353,063</u>
	<u>5,820,820</u>	<u>34,240</u>	<u>5,855,060</u>	<u>3,798,327</u>
	<u><u>\$8,158,805</u></u>	<u><u>\$34,240</u></u>	<u><u>\$8,193,045</u></u>	<u><u>\$6,626,989</u></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 years ended December 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
PUBLIC SUPPORT AND REVENUE				
Direct and indirect contributions	\$ 2,073,323	\$ 891,387	\$2,964,710	\$1,299,323
Private & government grants	579,865	50,000	629,865	1,178,909
In-kind donations	182,667	--	182,667	168,200
Fundraising events (net of direct donor benefits of \$109,686)	401,774	--	401,774	194,782
Loss on asset disposals	--	(91,935)	(91,935)	--
Fees, interest and other	<u>23,108</u>	<u>199</u>	<u>23,307</u>	<u>71,948</u>
	3,260,737	849,651	4,110,388	2,913,162
Net assets released by satisfaction of donor restrictions	<u>3,168,474</u>	<u>(3,168,474)</u>	<u>--</u>	<u>--</u>
Total support, revenue & reclassifications	6,429,211	(2,318,823)	4,110,388	2,913,162
FUNCTIONAL EXPENSES				
Program Services				
Dog training & maintenance	1,210,622	--	1,210,622	1,055,984
Public education & other	<u>499,546</u>	<u>--</u>	<u>499,546</u>	<u>346,537</u>
	1,710,168	--	1,710,168	1,402,521
Support Services				
Management and general	109,675	--	109,675	155,935
Financial development	<u>233,812</u>	<u>--</u>	<u>233,812</u>	<u>212,067</u>
	<u>343,487</u>	<u>--</u>	<u>343,487</u>	<u>368,002</u>
Total expenses	<u>2,053,655</u>	<u>--</u>	<u>2,053,655</u>	<u>1,770,523</u>
Change in net assets	4,375,556	(2,318,823)	2,056,733	1,142,639
Net assets, beginning of year	<u>1,445,264</u>	<u>2,353,063</u>	<u>3,798,327</u>	<u>2,655,688</u>
Net assets, end of year	<u>\$5,820,820</u>	<u>\$34,240</u>	<u>\$5,855,060</u>	<u>\$3,798,327</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.
Statements of Functional Expenses
For the years ended December 31, 2016 and 2015

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Dog</u>	<u>Education</u>	<u>Program</u>	<u>Management</u>	<u>Financial</u>	<u>2016</u>	<u>2015</u>
	<u>Training</u>	<u>& Other</u>	<u>Total</u>	<u>and</u>	<u>Development</u>		
				<u>General</u>			
Personnel expenses	\$ 521,251	\$ 314,019	\$ 835,270	\$ 68,711	\$ 127,768	\$1,031,749	\$835,394
Contract & professional services	144,549	37,762	182,311	6,468	29,799	218,578	220,165
Occupancy costs	208,709	26,659	235,368	20,107	12,653	268,128	230,968
Program supplies & equipment	197,651	30,371	228,022	--	--	228,022	187,909
Publications, printing & postage	10,374	34,195	44,659	1,288	13,644	59,591	53,640
Office supplies & expenses	12,790	16,768	29,558	2,044	8,585	40,187	34,654
Conferences, travel & meetings	17,144	13,281	30,425	1,107	6,282	37,814	27,098
Advertising & promotion	249	13,452	13,701	703	8,181	22,585	84,761
Insurance & miscellaneous	14,913	2,141	17,054	2,498	1,162	20,714	20,481
Technology & internet	<u>33,087</u>	<u>4,164</u>	<u>37,251</u>	<u>2,510</u>	<u>22,401</u>	<u>62,162</u>	<u>52,133</u>
	1,160,717	492,892	1,653,609	105,436	230,485	1,989,530	1,747,203
Depreciation expense	<u>49,905</u>	<u>6,654</u>	<u>56,559</u>	<u>4,239</u>	<u>3,327</u>	<u>64,125</u>	<u>23,320</u>
Total	<u>\$1,210,622</u>	<u>\$499,546</u>	<u>\$1,710,168</u>	<u>\$109,675</u>	<u>\$233,812</u>	<u>\$2,053,655</u>	<u>\$1,770,523</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,056,733	\$1,142,639
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	64,125	23,320
Loss on asset disposals	91,935	--
Changes in operating assets and liabilities:		
Increase in marketable securities	(34,240)	--
Decrease in contributions receivable	--	25,167
Decrease (increase) in prepaid expenses & deposits	(25,082)	31,300
(Decrease) in accounts payable	(44,668)	(4,479)
(Decrease) in cash held for conference	--	(35,565)
Increase (decrease) in restricted advance project funding	(411,111)	411,111
Increase in accrued payroll liabilities	<u>28,313</u>	<u>15,887</u>
Net cash flow from operating activities	1,726,005	1,609,380
Cash flow from financing activity:		
Advances from note payable to bank	--	2,314,422
Repayments of note payable to bank	(63,211)	--
Note payments to landlord	<u>--</u>	<u>(23,246)</u>
	(63,211)	2,291,176
Cash flow from investing activity:		
Additions to construction in progress	--	(3,506,727)
Fixed asset additions	<u>(2,766,077)</u>	<u>(2,622)</u>
	(2,766,077)	(3,509,349)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,103,283)	391,207
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,000,638</u>	<u>2,609,431</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$1,897,355</u>	<u>\$3,000,638</u>
Supplemental disclosure of cash flow information:		
Interest income - cash basis	<u>\$1,259</u>	<u>\$2,100</u>

The accompanying notes are an integral part of these statements.

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

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 custom trains rescue dogs from area shelters to assist people with disabilities. FSD serves clients across the U.S. including individuals who suffer from mobility impairments, veterans who have PTSD or TBI, 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 rescue dogs to become therapy dogs for licensed social workers and therapists. The Pawsitive Connections program combines group discussions with positive reinforcement-based dog training to develop empathy and pro-social skills with at-risk youth. 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.

FSD launched "Operation Impact," a capital campaign, in 2011 to move to a larger facility which would enable significant expansion of its programs. A property was purchased on August 7, 2015. In late 2015, FSD launched a second capital campaign, "A Tail of Transformation," to fund the necessary renovation of the facility. Renovation was substantially completed by October 2016 when FSD took occupancy. 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 accounting principles generally accepted in the United States of America. 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.

c. Cash and cash equivalents and marketable securities

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 1j 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 \$1,000. The fair value of donated assets is similarly

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FREEDOM SERVICE DOGS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property and equipment (continued)

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 27.5 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 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 and prior years' values of medications, food, and other dog care items, amounting to \$149,359 and \$127,960, respectively, are recorded herein under "program supplies & equipment." Legal and other services received during the current and prior years, worth \$33,308 and 40,240, respectively, are recorded herein under "contract & professional services."

Although not recorded herein due to not meeting all the requirements of U.S. generally accepted accounting principles, FSD relied upon over 6,600 hours of services that it received from over 300 volunteers during the current year.

g. Estimates

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

h. Functional expenses

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 on time expended, square footage or another reasonable basis. (Continued)

FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

i. Subsequent Events Review

Management has evaluated subsequent events through March 14, 2017, the date that these financial statements were available to be issued.

j. 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, 2016 and 2015.

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 at times exceed federally insured limits. FSD has never experienced any losses related to those balances. At December 31, 2016 and 2015, FSD had \$963,178 and \$1,648,286 of cash in excess of federally insured limits, respectively.

k. 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: Lease Commitment and Note Payable to Landlord

FSD's lease for its previous office and program space in Englewood, CO expired on August 31, 2016, and was continued as needed on a month-to-month basis in 2016 until FSD took occupancy of its new facilities in October of 2016. The rent expense incurred under the lease of \$98,630 and \$132,293 during 2016 and 2015, respectively, is included in the statement of functional expenses, herein, as one of the primary components of "occupancy costs". FSD also paid off during 2015 \$23,246 which was owed to the landlord at December 31, 2014 pursuant to a seven year 8% loan for leasehold improvements on its previous facility.

Note 3: Property Acquisition and Note Payable Commitment

FSD completed the purchase of a new facility on August 7, 2015 for \$3,166,457. \$340,270 more was spent during 2015 for site design, permits and environmental work. \$3,506,727 has been recorded herein as "Construction in Progress" at December 31, 2015. \$1,170,477 of this 2015 activity was financed by funds received from FSD's original capital campaign. Also on August 7, 2015, FSD obtained a \$2,336,250 seven year loan to finance the rest of its 2015 activity. The loan was through a local bank and backed by Colorado Health Facilities Authority revenue bonds.

The loan has a fixed 3.07% interest rate and requires minimum monthly payments of \$11,214. As of December 31, 2016 the principal balance owed was \$2,251,211 and the minimum principal payments due over each of the next five years, and thereafter in total, are as follows:

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FREEDOM SERVICE DOGS, INC.

Notes to Financial Statements

December 31, 2016 and 2015

Note 3: Property Acquisition and Note Payable Commitment (Continued)

<u>Year</u>	<u>Amount</u>
2017	\$ 65,421
2018	67,486
2019	69,618
2020	71,637
2021	73,980
Thereafter	<u>1,903,069</u>
Total	2,251,211
Less: current portion	<u>(65,421)</u>
Long-term portion	<u>\$2,185,790</u>

Interest expense incurred during 2016 of \$69,982 is included herein as a component of occupancy costs. \$411,111 of cash advanced pursuant to this note in 2015 was restricted for use at the end of the project. FSD had recorded that as a current liability at December 31, 2015. The cash was released from restriction during 2016 as the project was reaching completion.

FSD spent another \$2,766,077 on capitalized building improvements during 2016 to complete necessary renovations prior to taking full occupancy during October of 2016. This activity was 100% funded by the "A Tail of Transformation" Campaign.

Note 4: Temporarily Restricted Net Assets

During 2016 FSD received an interest in a REIT account which is recorded herein as a "marketable security" at fair value (\$34,240) based on its USGAAP Level 1 market quote input for valuation purposes. FSD has imposed a "timing restriction" until the REIT matures in 2018, so that maximum conversion value can be realized.

The Organization's \$2,353,063 of temporarily restricted net assets at December 31, 2015 represented donor restricted funds for the capacity building capital campaign. Those funds, in addition to those added during 2016, were completely used towards the renovation of the new facility during 2016. Activity within the campaign during the current year was as follows:

<u>Donor purpose</u>	<u>Balance at Dec 31, 2015</u>	<u>Current year</u>	<u>Balance at Dec 31, 2016</u>
		<u>Revenues</u>	<u>Expenses</u>
Capital Campaign	<u>\$2,353,063</u>	<u>\$849,651</u>	<u>\$(3,168,474)</u>
			<u>\$ —</u>