

SUPPORT DOGS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2007
(With comparative totals for 2006)

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Independent Auditor's Report

Board of Directors
Support Dogs, Inc.
St. Louis, Missouri

We have audited the accompanying statement of financial position of Support Dogs, Inc. (the "Organization") as of June 30, 2007, and the related statements of activities and changes in net assets, 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's summarized comparative information has been derived from the Organization's 2006 financial statements which were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated October 25, 2006.

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 Support Dogs, Inc. as of June 30, 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Huber, Ring, Helm + Co., P.C.

St. Louis, Missouri
November 16, 2007

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SUPPORT DOGS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007

(With comparative totals for 2006)

ASSETS		Temporarily	Total	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 8,718		\$ 8,718	\$ 493,810
Investments	252,776	\$ 213,131	465,907	
United Way receivable		57,264	57,264	60,482
Contributions receivable				200,000
Interest receivable	4,830		4,830	
Prepaid expenses	14,073		14,073	9,154
Total current assets	<u>280,397</u>	<u>270,395</u>	<u>550,792</u>	<u>763,446</u>
PROPERTY AND EQUIPMENT, net	64,183		64,183	40,069
OTHER ASSETS				
Investments	113,036		113,036	
Deposits	172		172	172
Total other assets	<u>113,208</u>		<u>113,208</u>	<u>172</u>
Total assets	<u>\$ 457,788</u>	<u>\$ 270,395</u>	<u>\$ 728,183</u>	<u>\$ 803,687</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 6,681		\$ 6,681	\$ 6,977
Accrued expenses	21,327		21,327	7,825
Deferred revenue	3,040		3,040	53,965
Current maturities of capital lease obligations	1,297		1,297	
Total current liabilities	<u>32,345</u>		<u>32,345</u>	<u>68,767</u>
LONG-TERM LIABILITIES				
Capital lease obligations, less current maturities	8,463		8,463	
Total liabilities	<u>40,808</u>		<u>40,808</u>	<u>68,767</u>
NET ASSETS				
Unrestricted	416,980		416,980	507,791
Temporarily restricted		\$ 270,395	270,395	227,129
Total net assets	<u>416,980</u>	<u>270,395</u>	<u>687,375</u>	<u>734,920</u>
Total liabilities and net assets	<u>\$ 457,788</u>	<u>\$ 270,395</u>	<u>\$ 728,183</u>	<u>\$ 803,687</u>

The accompanying notes are an integral part of these financial statements.

SUPPORT DOGS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2007
(With comparative totals for 2006)

	Unrestricted	Temporarily Restricted	Total	
			2007	2006
SUPPORT, REVENUES, AND GAINS				
Contributions	\$ 269,647	\$ 43,032	\$ 312,679	\$ 715,491
United Way of Greater St. Louis, Inc.		144,897	144,897	121,147
Program service fees	32,208		32,208	40,138
Special events and merchandise	215,256		215,256	90,002
Investment income	28,382		28,382	
Other income	3,302		3,302	5,037
Net assets released from restrictions	144,663	(144,663)		
Total support, revenues, and gains	693,458	43,266	736,724	971,815
EXPENSES				
Program Services				
Service Dog Program	301,369		301,369	246,482
TOUCH Therapy	159,753		159,753	145,326
PAWS for Reading Program	82,455		82,455	64,257
	543,577		543,577	456,065
Supporting Services				
Management and General	31,264		31,264	21,242
Fundraising				
Cesar Milan event	103,198		103,198	
Trivia Night and Tacky Ball	106,230		106,230	44,792
	209,428		209,428	44,792
	240,692		240,692	66,034
Total expenses	784,269		784,269	522,099
INCREASE (DECREASE) IN NET ASSETS	(90,811)	43,266	(47,545)	449,716
NET ASSETS BEGINNING OF YEAR	507,791	227,129	734,920	285,204
NET ASSETS END OF YEAR	\$ 416,980	\$ 270,395	\$ 687,375	\$ 734,920

The accompanying notes are an integral part of these financial statements.

SUPPORT DOGS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007
(With comparative totals for 2006)

	Program Services				Supporting Services			Grand Total	
	Service Dog Program	TOUCH Therapy	PAWS for Reading Program	Total	Management and General	Fund- Raising	Total	2007	2006
Auto and transportation	\$ 8,571	\$ 1,429	\$ 3,571	\$ 13,571	\$ 286	\$ 429	\$ 715	\$ 14,286	\$ 10,651
Bank and interest charges	4,100	2,602	394	7,097	394	394	788	7,885	3,543
Cost of merchandise sold						2,390	2,390	2,390	1,446
Depreciation and amortization	3,323	1,108	738	5,169	1,108	1,108	2,216	7,385	6,875
Fundraising events - direct expenses						126,597	126,597	126,597	23,565
Fundraising events - in-kind						49,779	49,779	49,779	47,942
Insurance	7,168	4,252	990	12,410	1,493	1,493	2,986	15,396	16,505
Occupancy	32,218	21,599	3,166	56,982	3,166	3,166	6,332	63,314	59,739
Other expenses	3,707	3,439	221	7,367	2,252	1,209	3,461	10,828	6,222
Payroll taxes	10,883	6,382	4,382	21,647	1,072	1,095	2,167	23,814	17,810
Postage and shipping	709	5,315	354	6,378	354	354	708	7,086	6,647
Printing and publications	4,352	6,217	622	11,191	622	622	1,244	12,435	14,604
Professional fees	10,580	6,439	1,654	18,673	2,226	2,226	4,452	23,125	21,499
Program supplies	38,943	4,580	707	44,230	463	388	851	45,081	18,678
Salaries and benefits	160,010	93,835	64,424	318,269	15,756	16,106	31,862	350,131	256,445
Supplies and equipment	2,255	752	501	3,508	752	752	1,504	5,012	
Telephone	1,852	1,804	731	4,387	244	244	488	4,875	3,981
Travel	2,153			2,153	1,076	1,076	2,152	4,305	1,243
Veterinarian fees	10,545			10,545				10,545	4,704
Total expenses	\$ 301,369	\$ 159,753	\$ 82,455	\$ 543,577	\$ 31,264	\$ 209,428	\$ 240,692	\$ 784,269	\$ 522,099

The accompanying notes are an integral part of these financial statements.

SUPPORT DOGS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
(With comparative totals for 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (47,545)	\$ 449,716
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
In-kind contributions of property and equipment	(3,000)	(1,000)
In-kind contribution of investments	(1,776)	
Depreciation and amortization	7,385	6,875
Unrealized loss on investments	843	
Changes in assets and liabilities		
(Increase) decrease in assets		
United Way receivable	3,218	(3,956)
Contributions receivable	200,000	(200,000)
Restitution receivable		50,000
Interest receivable	(4,830)	
Prepaid expenses	(4,919)	(603)
Increase (decrease) in liabilities		
Accounts payable	(296)	1,369
Accrued expenses	13,502	(379)
Deferred revenue	(50,925)	53,965
	111,657	355,987
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,000)	(5,459)
Proceeds from sale of investments	1,862,237	
Purchase of investments	(2,440,247)	
	(596,010)	(5,459)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(739)	
	(739)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(485,092)	350,528
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	493,810	143,282
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 8,718	\$ 493,810
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 1,722	
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment financed with capital lease obligation	\$ 10,500	

The accompanying notes are an integral part of these financial statements.

SUPPORT DOGS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES

Support Dogs, Inc., a not-for-profit corporation, was founded to help people with special needs achieve an improved quality of life through the use of assistance dogs. Through the services of a specially trained dog, coupled with a comprehensive educational program in the use of such a dog, the disabled person can achieve a more independent life style and thus develop a better sense of self-worth and competency. The Organization also provides pet-assisted therapy, through the TOUCH Program, and educational programs, including the PAWS for Reading Program, to thousands of individuals in the St. Louis Metropolitan area.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting. The Organization follows the accounting and reporting guidelines prescribed by the audit guide of the American Institute of Certified Public Accountants for not-for-profit organizations.

Financial Statement Presentation

The Organization reports its information regarding financial position and activities according to three classes of net assets depending upon the existence or nature of any donor-imposed restrictions. The following is a description of these classes of net assets:

Unrestricted – Those resources over which the Board of Directors has discretionary control. Designated amounts represent those resources that the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or the passage of time.

Permanently Restricted – Those resources subject to donor-imposed restrictions that will be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, on related investments for unrestricted or temporarily restricted purposes. No permanently restricted assets were held during the years ended June 30, 2007 and 2006, and, accordingly, these financial statements do not reflect any activity related to this class of net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts are reported as temporarily or permanently restricted support if they are received with a donor's stipulation that limits the use of the donated assets. When a donor's restriction is satisfied, temporarily restricted net assets are released and reported as an increase in unrestricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization is tax exempt under section 501(c)(3) of the Internal Revenue Code. As such, the Organization can only be taxed on income from any business activities unrelated to its charitable purpose. The Organization received no unrelated business taxable income for the years ended June 30, 2007 and 2006; therefore, the statements do not include any provision for income taxes.

Cash and Cash Equivalents

For purposes of these financial statements, the Organization considers all temporary cash investments with an original maturity of three months or less to be cash equivalents.

Investments

The Organization adheres to the Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Investments at Fair Market Value", and accordingly, securities purchased for investment, or received as gifts, are recorded at fair market value.

Property and Equipment

Property and equipment are stated at cost if purchased and at fair market value if contributed. Major renewals and betterments are charged to the property accounts while maintenance and repairs, which do not improve or extend the lives of the respective assets, are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the remaining terms of the leases.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*Donated Services and Materials*

Donated services and materials are recorded at the estimated fair value if they enhance the Organization's non-financial assets, or are specialized skills that the Organization would normally purchase if not provided by donation. During the years ended June 30, 2007 and 2006, volunteers donated a significant amount of time to the Organization's program services and its fundraising which did not meet the requirements of Statement of Financial Accounting Standards ("SFAS") No. 116 "Accounting for Contributions Received and Contributions Made" and are not reflected in the accompanying financial statements.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donors.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expenditure classifications. Other expenses that are common to several functions are allocated by management's estimate of the resources devoted to the program or supporting service activity.

Reclassifications

Certain reclassifications have been made to the prior year's amounts to make them consistent with the 2007 presentation.

NOTE 3 – CONCENTRATIONS OF CREDIT AND MARKET RISK

Financial instruments that potentially subject the Organization to credit and market risk consist principally of cash, investments, and receivables.

The Organization places all of its cash and cash equivalents and investments with major financial institutions, and by policy, attempts to limit the amount of credit exposure at any one financial institution.

The Organization also has a significant amount of investments in marketable securities that are, therefore, subject to market risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable. Concentrations of credit risk with respect to receivables are limited due to the nature of these receivables.

NOTE 4 – INVESTMENTS

Investments are carried at fair market value. The cost and fair market value of investments at June 30, 2007 are as follows:

	2007	
	<u>Market</u>	<u>Cost</u>
U.S. Government Agency Obligations	\$216,062	\$220,285
U.S. Treasury Bonds	249,845	249,332
Mutual Funds	<u>113,036</u>	<u>110,173</u>
	<u>\$578,943</u>	<u>\$579,790</u>

For the year ended June 30, 2007, investments are included in the Statement of Financial Position as follows:

	<u>2007</u>
Current assets	\$465,907
Non-current assets	<u>113,036</u>
	<u>\$578,943</u>

For the year ending June 30, 2007 investment income is comprised of:

	<u>2007</u>
Interest and dividends	\$ 29,224
Realized gain on investments	5
Unrealized loss on investments	<u>(847)</u>
	<u>\$ 28,382</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2007 and 2006 consist of:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$29,510	\$29,510
Equipment	30,796	19,554
Office furniture and equipment	<u>47,911</u>	<u>27,654</u>
	108,217	76,718
Less accumulated depreciation and amortization	<u>(44,034)</u>	<u>36,649</u>
	<u>\$64,183</u>	<u>\$40,069</u>

Depreciation and amortization expense totaled \$7,385 and \$6,876 for the years ended June 30, 2007 and 2006, respectively.

NOTE 6 – CAPITAL LEASE OBLIGATION

	<u>2007</u>
Lease obligation to IKON Financial Services for a copier, 60 monthly payments of \$349 beginning September 2006, secured by equipment. Interest imputed at 19.19%, final payment due September 2011.	\$9,760
Less current maturities	<u>1,297</u>
	<u><u>\$8,463</u></u>

Minimum future lease payments under the capital lease as of June 30, 2007 for each of the next five years and in the aggregate are as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2008	\$4,188
2009	4,188
2010	4,188
2011	4,188
2012	<u>1,047</u>
Total minimum lease payments	17,799
Less amounts representing interest and maintenance	<u>(8,039)</u>
	<u><u>\$9,760</u></u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES*Future Minimum Lease Payments*

The Organization leases its facilities under an operating lease expiring in January 2011, with options to renew for two additional terms of five years. Rent expenses for this lease for the years ended June 30, 2007 and 2006 were \$39,422 and \$37,456, respectively.

Approximate future minimum lease payments for the remaining term of these leases are as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2008	\$ 66,955
2009	69,012
2010	69,012
2011	<u>34,506</u>
	<u><u>\$239,485</u></u>

NOTE 8 – IN-KIND CONTRIBUTIONS

Significant qualifying services and property and equipment are contributed to the Organization annually and are recorded at fair market value upon receipt. For the years ending June 30, 2007 and 2006, the Organization recognized in-kind support as follows:

	<u>2007</u>	<u>2006</u>
Contributed Public Relations Services	\$ 1,000	
Property and equipment	3,000	\$ 1,000
Supplies, merchandise, and services	<u>53,175</u>	<u>56,620</u>
	<u>\$57,175</u>	<u>\$57,620</u>

Property and equipment have been capitalized in the Statement of Financial Position. Public relations fees, supplies, and merchandise have been properly recorded in the Statement of Activities and Changes in Net Assets.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2007 and 2006, temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Service Dog Program	\$200,000	\$200,550
PAWS for Reading Program		9,500
TOUCH Program		7,129
Signal Dog Program	9,950	9,950
Foundation Web Search	500	
Equipment Purchases	997	
ADI Conference	1,684	
Time Restriction - United Way	<u>57,264</u>	
	<u>\$270,395</u>	<u>\$227,129</u>

NOTE 10 – NET ASSETS RELEASED FROM DONOR-IMPOSED RESTRICTIONS

Net assets were released from donor-imposed restrictions by expiration of time or by incurring expenses satisfying the restricted purposes as follows:

	<u>2007</u>	<u>2006</u>
Service Dog Program	\$ 11,550	\$ 550
PAWS for Reading Program	17,750	11,000
TOUCH Program	10,749	12,421
Pediatric Program	3,780	
Equipment Purchases	11,875	
ADI Conference	1,326	
Time restriction met - United Way	87,633	
	<u>\$144,663</u>	<u>\$ 23,971</u>

NOTE 11 – FUNDRAISING EXPENSES

During the year ended June 30, 2007, the Organization hosted a fundraising event that featured Cesar Milan, the Dog Whisperer, as a guest speaker. This was a one-time event for the Organization. The direct fundraising expenses related to this event totaled \$103,198, which accounted for approximately 81% of the total direct fundraising expenses contained in the Statement of Functional Expenses. The revenues related to this event totaled \$133,700, which accounted for approximately 62% of the total income derived from fundraising activities during the year. The amount of direct expenses and indirect expenses specifically related to the Cesar Milan event increased the Organization’s overall ratio of fundraising expenses to fundraising revenues.