FINANCIAL STATEMENTS

JUNE 30, 2009 (With comparative totals for 2008)

INDEX

	<u>Page</u>
Independent Auditor's Report	. 1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13



1600 S. Brentwood Blvd. Suite 600 St. Louis, MO 63144-1334 314-962-9474 (fax)

2897 Highway K Suite 201 O'Fallon, MO 63368-7863 636-240-7391 (fax)

314-962-0300

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, 2009, 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 2008 financial statements and, in our report dated October 27, 2008, 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 Support Dogs, Inc. as of June 30, 2009, 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, Rung, Helm + Co., P.C.

St. Louis, Missouri October 27, 2009

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009 (With comparative totals for 2008)

ASSETS

		Temporarily	To	otal
	Unrestricted	Restricted	2009	2008
CURRENT ASSETS				
Cash and cash equivalents	\$ 41,811		\$ 41,811	\$ 31,169
United Way receivable		\$ 52,850	52,850	55,116
Bequest receivable	50,000		50,000	
Interest receivable	1,478		1,478	1,478
Prepaid expenses	3,088		3,088	11,507
Total current assets	96,377	52,850	149,227	99,270
PROPERTY AND EQUIPMENT, net	46,674		46,674	57,576
OTHER ASSETS				
Investments	35,529	222,396	257,925	437,652
Deposits	222_		222	222
Total other assets	35,751	222,396	258,147	437,874
Total assets	\$ 178,802	\$ 275,246	\$ 454,048	\$ 594,720
LIABILITI	ES AND NET .	ASSETS		
CURRENT LIABILITIES				
Accounts payable	\$ 18,880		\$ 18,880	\$ 17,445
Accrued expenses	30,709		30,709	31,000
Deferred revenue	9,944		9,944	2,204
Current maturities of capital				
lease obligations				1,768
Total current liabilities	59,533		59,533	52,417
LONG-TERM LIABILITIES				
Capital lease obligations,				
less current maturities				6,695
Total liabilities	59,533		59,533	59,112
NET ASSETS				
Unrestricted	119,269		119,269	228,020
Temporarily restricted		\$ 275,246	275,246	307,588
Total net assets	119,269	275,246	394,515	535,608
Total liabilities and net assets	\$ 178,802	\$ 275,246	\$ 454,048	\$ 594,720

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2009 (With comparative totals for 2008)

	Temporarily		To	tal
	Unrestricted	Restricted	2009	2008
SUPPORT, REVENUES, AND GAINS				
Contributions	\$ 348,781	\$ 43,340	\$ 392,121	\$ 437,346
United Way of Greater St. Louis, Inc.		111,690	111,690	121,036
Program service fees	56,760		56,760	36,966
Special events and merchandise	109,648		109,648	76,734
Net depreciation in fair value of investments	(21,411)		(21,411)	(1,702)
Other income	15,319		15,319	5,973
Net assets released from restrictions	187,372	(187,372)		
Total support, revenues, and gains	696,469	(32,342)	664,127	676,353
EXPENSES				
Program Services				
Service Dog Program	368,432		368,432	370,674
TOUCH Therapy	179,691		179,691	185,337
PAWS for Reading Program	12,219		12,219	44,481
	560,342		560,342	600,492
Supporting Services				·
Management and general	45,987		45,987	51,894
Fundraising	198,891		198,891	175,734
	244,878		244,878	227,628
Total expenses	805,220		805,220	828,120
DECREASE IN NET ASSETS	(108,751)	(32,342)	(141,093)	(151,767)
NET ASSETS BEGINNING OF YEAR	228,020	307,588	535,608	687,375
NET ASSETS END OF YEAR	\$ 119,269	\$ 275,246	\$ 394,515	\$ 535,608

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009 (With comparative totals for 2008)

		Program	Services		Su	pporting Servi	ces		
	Service		PAWS for		Management		_		
	Dog	TOUCH	Reading		and	Fund-		Grand	l Total
	Program	Therapy	Program	Total	General	Raising	Total	2009	2008
Auto and transportation	\$ 7,580	\$ 3,789	\$ 259	\$ 11,628	\$ 955	\$ 2,578	\$ 3,533	\$ 15,161	\$ 11,709
Bank and interest charges	1,921	961	65	2,947	242	653	895	3,842	4,472
Cost of merchandise sold						992	992	992	1,358
Depreciation and amortization	4,590	2,295	156	7,041	578	1,561	2,139	9,180	9,807
Fundraising events - direct expenses						32,640	32,640	32,640	26,734
Fundraising events - in-kind						41,071	41,071	41,071	58,680
Insurance	7,743	3,872	263	11,878	976	2,633	3,609	15,487	15,140
Occupancy	50,535	25,268	1,718	77,521	6,367	17,182	23,549	101,070	95,006
Other expenses	7,219	3,610	245	11,074	910	2,454	3,364	14,438	13,071
Payroll taxes	15,221	7,610	517	23,348	1,918	5,175	7,093	30,441	29,959
Postage and shipping	2,981	1,491	102	4,574	376	1,014	1,390	5,964	9,440
Printing and publications	9,237	4,619	314	14,170	1,164	3,141	4,305	18,475	21,022
Professional fees	19,247	9,623	654	29,524	2,425	6,544	8,969	38,493	25,877
Program supplies	19,819	9,909	674	30,402	2,497	6,738	9,235	39,637	44,228
Salaries and benefits	209,675	104,837	7,129	321,641	26,419	71,289	97,708	419,349	429,927
Supplies and equipment	89	44	3	136	11	30	41	177	2,475
Telephone	2,289	1,145	78	3,512	288	778	1,066	4,578	5,793
Travel	1,235	618	42	1,895	156	420	576	2,471	2,145
Veterinarian fees	9,051			9,051	705	1,998	2,703	11,754	21,277
Total expenses	\$368,432	\$179,691	\$ 12,219	\$ 560,342	\$ 45,987	\$198,891	\$ 244,878	\$805,220	\$828,120

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009 (With comparative totals for 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (141,093)	\$ (151,767)
Adjustments to reconcile decrease in net assets		
to net cash used in operating activities		
In-kind contributions of property and equipment		(3,200)
Contribution of investments		(50,541)
Loss on disposal of fixed assets	296	
Depreciation and amortization	9,180	9,807
Unrealized loss on investments	20,244	19,341
Realized loss on investments	14,341	8,708
Changes in assets and liabilities		
(Increase) decrease in assets	0.066	0.140
United Way receivable	2,266	2,148
Bequest receivable	(50,000)	2 252
Interest receivable	9.410	3,352
Prepaid expenses	8,419	2,566
Increase (decrease) in liabilities	1,435	10,764
Accounts payable	(291)	9,673
Accrued expenses Deferred revenue	7,740	(836)
Deterred revenue	7,740	(830)
NET CASH USED IN OPERATING ACTIVITIES	(127,463)	(139,985)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,649)	
Proceeds from sale of investments	156,951	1,139,135
Purchase of investments	(11,809)	(975,402)
NET CASH PROVIDED BY INVESTING ACTIVITIES	141,493	163,733
CACH ELONG EDOM EINANCING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES	(3,388)	(1,297)
Principal payments on capital lease obligation	(3,386)	(1,297)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,642	22,451
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	31,169	8,718
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 41,811	\$ 31,169
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		ф. 1007
Cash paid during the year for interest	\$ 1,867	\$ 1,985

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:

<u>Unrestricted</u> – 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.

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

<u>Permanently Restricted</u> – 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, 2009 and 2008; 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 class of net assets. 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, 2008, 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, 2009 and 2008; therefore, the statements do not include any provision for income taxes.

Management has elected to defer the application of Financial Accounting Standards Board Interpretation FIN 48, "Accounting for Uncertain Tax Positions", in accordance with Financial Accounting Standards Board Staff Position FIN 48-3. The Organization will continue to follow Financial Accounting Standard 5, "Accounting for Contingencies", until it adopts FIN 48.

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.

Valuation of Investments and Income Recognition

The Organization's investments are reported at fair value. Fair value is 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. See Note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The Organization presents, in the statement of activities and changes in net assets, the net appreciation (depreciation) in fair value of investments, which consists of the dividend and interest income (net of investment fees), realized gains (losses), and unrealized appreciation (depreciation) on those investments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2009 and 2008, 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 No. 116 "Accounting for Contributions Received and Contributions Made" and are not reflected in the accompanying financial statements.

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.

NOTE 3 – RISKS AND UNCERTAINTIES

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 value. For the years ended June 30, 2009 and 2008, the cost and fair value of investments are as follows:

	June 30,				
	20	09	20	08	
	Market	Cost	Market	Cost	
Mutual funds	\$ 257,925	\$298,357	\$ 437,652	\$ 457,840	

For the years ending June 30, 2009 and 2008 net depreciation in fair value of investments is comprised of:

	2009	2008
Interest and dividends	\$ 13,174	\$ 26,347
Realized loss on investments	(14,341)	(8,708)
Unrealized loss on investments	(20,244)	 (19,341)
	\$ (21,411)	\$ (1,702)

NOTE 5 – FAIR VALUE MEASUREMENTS

On July 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157 ("SFAS No. 157") which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels explained below:

- Level 1 Valuations based on unadjusted quoted prices available for identical assets in active markets that the Organization has the ability to access.
- Level 2 Valuations based on quoted prices in markets which are not active, or for which all significant inputs are observable, either directly or indirectly, or derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The adoption of SFAS No. 157 did not have any impact on the Organization's statement of financial position or the changes therein.

The assets' fair value measurement levels within the fair value hierarchy are based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value as of June 30, 2009.

Mutual Funds: Valued at quoted market prices based on the net asset value of shares held by the Organization at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value as of June 30, 2009:

	Level 1	Level 2	Level 3
Mutual funds	\$ 257,925	\$ -	\$ -

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2009 and 2008 consist of:

	2009	2008
Leasehold improvements	\$29,510	\$ 29,510
Equipment	31,981	33,996
Office furniture and equipment	41,061	47,911
	102,552	111,417
Less accumulated depreciation		
and amortization	55,878	53,841
	\$46,674	\$ 57,576

Depreciation and amortization expense totaled \$9,180 and \$9,807 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7 – CAPITAL LEASE OBLIGATION 2009 2008 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%, due September 2011. This lease was terminated in March 2009. \$ - \$ 8,463

Less current maturities

 1,768

 \$
 \$ 6,695

NOTE 8 – COMMITMENTS AND CONTENGENCIES

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, 2009 and 2008 were \$68,904 and \$66,839, respectively.

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

Year ending	
June 30,	Amount
2010	\$ 69,012
2011	34,506
	\$ 103,518

Future Minimum Lease Payments (Continued)

The Organization leases its copier under an operating lease expiring in May 2016. Rent expense for this lease for the year ended June 30, 2009 totaled \$1,004.

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

Year ending	
June 30,	Amount
2010	\$ 4,015
2011	4,015
2012	4,015
2013	4,015
2014	4,015
Thereafter	5,688
	\$ 25,763

NOTE 9 – IN-KIND CONTRIBUTIONS

Significant qualifying services and property and equipment are contributed to the Organization annually and are recorded at fair value upon receipt. For the years ending June 30, 2009 and 2008, the Organization recognized in-kind support as follows:

	2009	2008
Contributed public relations services	\$ 8,884	\$ 4,700
Property and equipment		3,200
Supplies, merchandise, and services	35,371	66,214
	\$44,255	\$ 74,114

Property and equipment have been capitalized in the statement of financial position. Public relations fees, supplies, and merchandise have been properly recorded as contributions in the statement of activities and changes in net assets.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2009 and 2008, temporarily restricted net assets are available for the following purposes:

	2009	2008
Successor Dog Program	\$202,143	\$232,143
Time Restriction - United Way	52,850	55,116
Website enhancement	15,000	
Crawford Taylor Vet Fund	5,253	4,695
PAWS for Reading Program		2,500
Signal Dog Program		9,950
Foundation Web Search		1,500
ADI Conference		1,684
	\$275,246	\$307,588

NOTE 11 – 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 for the years ended June 30, 2009 and 2008 as follows:

	2009	2008
Time restriction met - United Way	\$113,956	\$123,184
Successor Dog Program	30,000	30,000
PAWS for Reading Program	11,500	15,750
Service Dog Program	10,901	25,800
Signal Dog Program	9,950	
Crawford Taylor Vet Fund	4,706	5,305
Technology Fund	3,000	
ADI Conference	1,684	
Foundation Web Search	1,500	500
TOUCH Program	175	2,500
Pediatric Program		5,300
Equipment Purchases		997
	\$187,372	\$209,336

NOTE 15 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 27, 2009, the date on which the financial statements were available to be issued.