

**FIDELCO GUIDE DOG FOUNDATION, INC.**

Independent Auditors' Report and  
Financial Statements

December 31, 2012 and 2011

FIDELCO GUIDE DOG FOUNDATION, INC.

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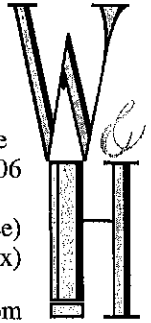
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Fidelco Guide Dog Foundation, Inc.

We have audited the accompanying financial statements of Fidelco Guide Dog Foundation, Inc., ("Fidelco") which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Fidelco Guide Dog Foundation, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Whittlesey & Hadley, P.C.*

May 21, 2013

**FIDELCO GUIDE DOG FOUNDATION, INC.**

Statements of Financial Position

December 31, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents - undesignated	\$ 559,263	\$ 449,319
Cash - restricted	136,387	147,500
Investments:		
Securities	13,229,282	11,843,706
Property held for sale	3,750,000	3,750,000
Held in trust by others	1,003,414	918,023
Charitable remainder trusts	587,318	549,094
Prepaid expenses	77,281	80,515
Contributions receivable	106,396	-
Land, building and equipment, net	2,742,505	2,791,852
Total assets	\$ 22,191,846	\$ 20,530,009
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 220,736	\$ 84,309
Accrued pension	760,557	801,097
Total liabilities	981,293	885,406
Net assets:		
Unrestricted:		
Operations	(560,715)	(675,212)
Land, building and equipment	2,742,505	2,791,852
Board designated	7,743,351	7,464,449
Total unrestricted	9,925,141	9,581,089
Temporarily restricted	830,101	696,594
Permanently restricted	10,455,311	9,366,920
Total net assets	21,210,553	19,644,603
Total liabilities and net assets	\$ 22,191,846	\$ 20,530,009

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

**FIDELCO GUIDE DOG FOUNDATION, INC.**

Statement of Activities and Changes in Net Assets

For the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND SERVICES</b>				
Contributions	\$ 2,140,543	\$ 242,783	\$ 1,003,000	\$ 3,386,326
Special promotions	115,584	-	-	115,584
Sales of products and services	111,616	-	-	111,616
Events	45,512	-	-	45,512
Catalog & souvenirs	32,794	-	-	32,794
Miscellaneous	5,220	-	-	5,220
Net assets satisfying purpose restrictions	147,500	(147,500)	-	-
Appropriation of endowment assets for operations	1,451,249	-	-	1,451,249
Total revenues	<u>4,050,018</u>	<u>95,283</u>	<u>1,003,000</u>	<u>5,148,301</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Training and placement	1,904,289	-	-	1,904,289
Kennel costs	261,693	-	-	261,693
Operating facilities	282,615	-	-	282,615
Monitoring and public education	742,553	-	-	742,553
Total program services	<u>3,191,150</u>	<u>-</u>	<u>-</u>	<u>3,191,150</u>
Supporting Services:				
Management and general	525,305	-	-	525,305
Fundraising and special events	263,071	-	-	263,071
Total supporting services	<u>788,376</u>	<u>-</u>	<u>-</u>	<u>788,376</u>
Total expenses	<u>3,979,526</u>	<u>-</u>	<u>-</u>	<u>3,979,526</u>
Change in net assets from operating activities	<u>70,492</u>	<u>95,283</u>	<u>1,003,000</u>	<u>1,168,775</u>
<b>OTHER CHANGES</b>				
Appropriation of endowment assets for operations	(1,451,249)	-	-	(1,451,249)
Investment income	357,754	-	-	357,754
Investment management fees	(69,804)	-	-	(69,804)
Change in the value of split interest agreement	-	38,224	-	38,224
Realized gains on investments	562,098	-	-	562,098
Unrealized gain on investments	877,103	-	-	877,103
Unrealized gain on investments held in trusts by others	-	-	85,391	85,391
Pension benefits related changes other than net periodic pension cost	(2,342)	-	-	(2,342)
Total other changes	<u>273,560</u>	<u>38,224</u>	<u>85,391</u>	<u>397,175</u>
Total change in net assets	344,052	133,507	1,088,391	1,565,950
Net assets, beginning of year	9,581,089	696,594	9,366,920	19,644,603
Net assets, end of year	<u>\$ 9,925,141</u>	<u>\$ 830,101</u>	<u>\$ 10,455,311</u>	<u>\$ 21,210,553</u>

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

FIDELCO GUIDE DOG FOUNDATION, INC.

Statement of Activities and Changes in Net Assets (continued)

For the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND SERVICES</b>				
Contributions	\$ 1,900,317	\$ 2,500	\$ 1,003,000	\$ 2,905,817
Special promotions	135,262	-	-	135,262
Sales of products and services	171,569	-	-	171,569
Events	78,515	-	-	78,515
Catalog & souvenirs	32,187	-	-	32,187
Miscellaneous	5,220	-	-	5,220
Net assets satisfying purpose restrictions	785,506	(785,506)	-	-
Appropriation of endowment assets for operations	1,103,071	-	-	1,103,071
Total revenues	<u>4,211,647</u>	<u>(783,006)</u>	<u>1,003,000</u>	<u>4,431,641</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Training and placement	2,027,591	-	-	2,027,591
Kennel costs	296,348	-	-	296,348
Monitoring and public education	1,041,411	-	-	1,041,411
Total program services	<u>3,365,350</u>	<u>-</u>	<u>-</u>	<u>3,365,350</u>
Supporting Services:				
Management and general	585,641	-	-	585,641
Fundraising and special events	359,727	-	-	359,727
Total supporting services	<u>945,368</u>	<u>-</u>	<u>-</u>	<u>945,368</u>
Total expenses	<u>4,310,718</u>	<u>-</u>	<u>-</u>	<u>4,310,718</u>
Change in net assets from operating activities	<u>(99,071)</u>	<u>(783,006)</u>	<u>1,003,000</u>	<u>120,923</u>
<b>OTHER CHANGES</b>				
Appropriation of endowment assets for operations	(1,103,071)	-	-	(1,103,071)
Investment income	337,918	-	-	337,918
Investment management fees	(56,595)	-	-	(56,595)
Change in the value of split interest agreement	-	(44,565)	-	(44,565)
Loss on disposal of assets	(371)	-	-	(371)
Realized loss on investments	(8,512)	-	-	(8,512)
Unrealized loss on investments	(675,354)	-	-	(675,354)
Unrealized loss on investments held in trusts by others	-	-	(55,652)	(55,652)
Pension benefits related changes other than net periodic pension cost	(194,442)	-	-	(194,442)
Impairment of property held for sale	(750,000)	-	-	(750,000)
Total other changes	<u>(2,450,427)</u>	<u>(44,565)</u>	<u>(55,652)</u>	<u>(2,550,644)</u>
Total change in net assets	(2,549,498)	(827,571)	947,348	(2,429,721)
Net assets, beginning of year	12,130,587	1,524,165	8,419,572	22,074,324
Net assets, end of year	<u>\$ 9,581,089</u>	<u>\$ 696,594</u>	<u>\$ 9,366,920</u>	<u>\$ 19,644,603</u>

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

**FIDELCO GUIDE DOG FOUNDATION, INC.**

Statement of Cash Flows

For the years ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total change in net assets	\$ 1,565,950	\$ (2,429,721)
Adjustments to reconcile changes in net assets to net change in operating activities:		
Depreciation	165,128	181,819
Loss (gain) on disposal of assets	-	371
Net realized and unrealized loss (gain) on investments	(1,439,201)	683,866
Net realized and unrealized (loss) gain on investments held in trust by others	(85,391)	55,652
Change in value of contributions receivable from remainder trusts	(38,224)	44,565
Impairment of property held for sale	-	750,000
(Increase)/decrease in operating assets:		
Accounts receivable	-	3,531
Contributions receivable	(106,396)	-
Prepaid expenses	3,234	6,253
Increase/(decrease) in operating liabilities:		
Accounts payable	136,427	(80,184)
Deferred revenue	-	(5,750)
Accrued pension	(40,540)	302,773
Net change in operating activities	160,987	(486,825)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments - securities	(1,418,525)	(2,121,187)
Proceeds from sale of investments	1,472,150	1,142,271
Proceeds from charitable remainder trust	-	673,356
Purchase of property and equipment	(115,781)	(67,205)
Net change in investing activities	(62,156)	(372,765)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	1,055,000	790,000
Repayment of line of credit	(1,055,000)	(790,000)
Net change in financing activities	-	-
Net change in cash and cash equivalents	98,831	(859,590)
Cash and cash equivalents, beginning of year	596,819	1,456,409
Cash and cash equivalents, end of year	\$ 695,650	\$ 596,819

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

**FIDELCO GUIDE DOG FOUNDATION, INC.**

Notes to Financial Statements

December 31, 2012 and 2011

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Fidelco Guide Dog Foundation, Inc. (“Fidelco”) is incorporated as a charitable and educational organization under the laws of the State of Connecticut. Its principal purposes include:

- Promoting increased independence and mobility to men and women who are blind by providing them with the highest quality guide dogs.
- Providing educational services to blind clients utilizing Fidelco guide dogs over the working life of their animals.
- Training and “in-community” placement of the highest quality guide dogs.
- Maintaining Fidelco guide dog performance to the highest professional level attainable.
- Continue to refine the breed of the Fidelco German Shepherd dog through genetic and clinical methods.
- Developing improved training methods.
- Educating the public on how blind persons can lead independent and productive lives through the use of a guide dog.

Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. Estimates that are particularly critical and are susceptible are the valuation for property held for sale and expenses and liabilities for pension benefits. Actual results could differ from those estimates.

The accompanying financial statements have been prepared on the accrual basis of accounting. The financial statements report information regarding Fidelco's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

- |                         |  |
|-------------------------|--|
| Unrestricted:           | Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.                                 |
| Temporarily Restricted: | Net assets whose use by Fidelco is subject to explicit donor-imposed stipulations that can be fulfilled by actions of Fidelco or that expire by the passage of time.   |
| Permanently Restricted: | Net assets subject to explicit donor-imposed stipulations that the principal be invested in perpetuity and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted. |



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and Cash Equivalents

Fidelco considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Fidelco has cash equivalents of \$215,966 and \$319,640 at December 31, 2012 and 2011.

### Investments

Investments are reported at fair value and reflect any gain or loss in the statement of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Non-monetary investments received as gifts are immediately sold and recorded at the realized value.

### Fair Value Measurements

Fair value is based on exit price in the principal market for the asset or liability being measured at fair value, and is the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. A three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities is described as follows:

Level 1 - Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Assets and liabilities whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

### Endowment Assets

Fidelco's endowment funds are subject to the *Connecticut Uniform Prudent Management of Institutional Funds Act*, which includes enhanced disclosures for the endowment funds.

Fidelco adopted a spending policy designed to support Fidelco's mission. The policy provides funds for current operating needs while allowing growth of principal to support future operations. The use of funds is subject to approval by the Board of Directors.

Fidelco's policy is to present board designated investment income and permanently restricted investments held in trust income distributions earned during the year with unrestricted net assets. Currently, none of Fidelco's investment earnings or permanently restricted investments held in trust income distributions are subject to temporary restrictions.

### Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no impact on the change in net assets.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to Fidelco that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Fidelco records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date the gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. For the year ended December 31, 2012, the interest rate used was 6%. Accretion of the discounts is recognized as contribution revenue using the effective interest method.

Fidelco is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by a probate court and the proceeds are measureable.

### Charitable Remainder Trusts

Fidelco received contributions in the form of Charitable Remainder Trusts. Under the terms of the Trusts, Fidelco is to receive the assets of each Trust upon the death of the donor while the donor is to receive the income from the Trust investments for life. Fidelco is not the Trustee of the Trusts. Upon notification of each Trust, Fidelco records receipt of the contribution at fair market value discounted for the present value of the estimated future payments based on the life expectancy of each donor and the expected rate of return on Trust assets. Life expectancy is based on published actuarial tables. Should the donor surpass the projection per the actuarial table, the contribution is carried at the current fair market value. Changes in the value of each Trust at the financial statement date were adjusted for appreciation or depreciation in Trust assets and the updated life expectancy of each donor.

### Tax Exempt Status

The Internal Revenue Service (“IRS”) determined that Fidelco is exempt from Federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Consequently, Fidelco is exempt from state income taxes and no provision for income taxes has been made in the accompanying financial statements.

Uncertain tax positions are initially recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by tax authorities. As of December 31, 2012 and 2011, Fidelco has no tax positions that qualify for either recognition or disclosure in the financial statements and believes that it has appropriate support for income tax positions taken in its tax returns. Currently, Fidelco’s Federal informational returns for fiscal years 2009 through 2011 remain open to inspection by the IRS, with 2012 return to be filed in 2013.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Land, Building and Equipment

Fidelco capitalizes all expenditures for building and equipment having a useful life of greater than one year. Purchased buildings and equipment are recorded at cost. Donated building and equipment are recorded at the approximate fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The building has a life of forty (40) years, improvements range from five (5) to twenty (20) years, and equipment and vehicles range from three (3) to six (6) years.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

### Gifts of Long-Lived Assets

Fidelco reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Upon expiration of donor stipulations, Fidelco sells the long-lived assets or places the long-lived assets in service.

### Contributed Products and Services

Contributed products and services are recorded at their estimated values at date of receipt. The majority of Fidelco's contributed products and services relate to various advertising media and services received in connection with promoting Fidelco and its principal fund raising activities.

### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. These costs include direct and indirect costs that have been allocated, on a consistent basis, among the program and supporting services benefited.

### Pension Plan

Fidelco maintains a contributory defined benefit pension plan covering all full-time employees. It is Fidelco's policy to fund pension costs accrued.

### Concentration of Credit Risk

The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Fidelco invests in various debt and equity securities. These investment securities are recorded at market value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, credit and other risks, depending on the nature of the specific investment; therefore, it is at least reasonably possible that these factors will result in changes in the value of Fidelco's investments, which could materially affect amounts reported in the financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Major Contributors

For the years December 31, 2012 and 2011, contributions received from major contributors were as follows:

Donor	2012		2011	
	Contribution	Percent of Contribution	Contribution	Percent of Contribution
A	\$ 1,000,000	29.5%	\$ 1,000,000	34.4%
B	246,415	7.3%	-	0.0%
C	155,108	4.6%	-	0.0%
D	105,959	3.1%	240,000	8.3%
E	79,424	2.3%	-	0.0%
	<u>\$ 1,586,906</u>	<u>46.9%</u>	<u>\$ 1,240,000</u>	<u>42.7%</u>

**NOTE 2 – FAIR VALUE MEASUREMENTS**

Recurring Basis

The following table details the financial instruments carried at fair value as of December 31, 2012 and 2011 and indicates the fair value hierarchy of the valuation techniques used to determine fair value on a recurring basis:

	2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities and mutual funds	\$ 10,434,569	\$ -	\$ -	\$ 10,434,569
Debt securities and mutual funds	-	2,753,153	-	2,753,153
Government mortgage backed securities	-	41,560	-	41,560
	<u>10,434,569</u>	<u>2,794,713</u>	<u>-</u>	<u>13,229,282</u>
Charitable remainder trusts	173,552	413,766	-	587,318
Held trust held by others	736,119	267,295	-	1,003,414
	<u>\$ 11,344,240</u>	<u>\$ 3,475,774</u>	<u>\$ -</u>	<u>\$ 14,820,014</u>
	2011			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities and mutual funds	\$ 9,029,517	\$ -	\$ -	\$ 9,029,517
Debt securities and mutual funds	-	2,751,129	-	2,751,129
Government mortgage backed securities	-	63,060	-	63,060
	<u>9,029,517</u>	<u>2,814,189</u>	<u>-</u>	<u>11,843,706</u>
Charitable remainder trusts	237,449	311,645	-	549,094
Held trust held by others	616,240	301,783	-	918,023
	<u>\$ 9,883,206</u>	<u>\$ 3,427,617</u>	<u>\$ -</u>	<u>\$ 13,310,823</u>

**NOTE 2 – FAIR VALUE MEASUREMENTS (CONTINUED)**

Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the reporting period as well as assets that are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

Property held for sale is from a contribution of real property made in 2006 with an appraised value fair market value of \$4,500,000. During 2011, management had listed the property for sale at the appraised value, however, it was determined that based on the market conditions and expected future potential sales value it was determined that the fair value was \$3,750,000 (using Level 3 measurements). As a result the value of the property was reduced by \$750,000 in 2011 and the balance remains at \$3,750,000 as of December 31, 2012.

**NOTE 3 – ENDOWMENT ASSETS**

The reconciliation of the Fidelco’s endowment assets by net asset category is as follows:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Restricted assets, 1/1/12	\$ 7,464,449	\$ 696,594	\$ 9,366,920	\$ 17,527,963
Investment income	357,754	-	-	357,754
Realized gains	562,098	-	-	562,098
Unrealized gains	877,103	38,224	85,391	1,000,718
Management fees	(69,804)	-	-	(69,804)
Contributions	-	242,783	1,006,000	1,248,783
Other	3,000	-	(3,000)	-
Appropriation of endowment assets for expenditures	(1,451,249)	(147,500)	-	(1,598,749)
Restricted assets, 12/31/12	<u>\$ 7,743,351</u>	<u>\$ 830,101</u>	<u>\$ 10,455,311</u>	<u>\$ 19,028,763</u>
Restricted assets, 1/1/11	\$ 9,717,801	\$ 1,524,165	\$ 8,419,572	\$ 19,661,538
Investment income	337,668	-	-	337,668
Realized (losses)	(8,512)	(8,162)	-	(16,674)
Unrealized (losses)	(1,419,842)	(36,403)	(55,652)	(1,511,897)
Management fees	(56,595)	-	-	(56,595)
Contributions	-	2,500	1,000,000	1,002,500
Other	(3,000)	-	3,000	-
Appropriation of endowment assets for expenditures	(1,103,071)	(785,506)	-	(1,888,577)
Restricted assets, 12/31/11	<u>\$ 7,464,449</u>	<u>\$ 696,594</u>	<u>\$ 9,366,920</u>	<u>\$ 17,527,963</u>

**NOTE 4 – LAND, BUILDING AND EQUIPMENT**

Balances of major classes of depreciable assets (recorded at cost) and total accumulated depreciation are as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 199,642	\$ 199,642
Building and improvements	5,246,745	5,155,951
Equipment	871,130	890,135
	<u>6,317,517</u>	<u>6,245,728</u>
Less: accumulated depreciation	<u>(3,575,012)</u>	<u>(3,453,876)</u>
	<u>\$ 2,742,505</u>	<u>\$ 2,791,852</u>

**NOTE 5 – NET ASSETS**

Temporarily restricted net assets are comprised of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Charitable remainder trust	\$ 587,318	\$ 549,094
Contributions receivable	106,396	-
Guide dog placement program	100,000	135,000
Various programs	36,387	12,500
	<u>\$ 830,101</u>	<u>\$ 696,594</u>

Permanently restricted net assets are comprised of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Successor guide dog program	\$ 6,800,000	\$ 5,800,000
First time placement program	1,195,897	1,195,897
Investments - held in trust by others	1,003,414	918,023
Puphouse maintenance program	650,000	650,000
Apprentice program	300,000	300,000
Guide dog placement program	250,000	250,000
Guide dog training program	250,000	250,000
Endowment fund - other	6,000	3,000
	<u>\$ 10,455,311</u>	<u>\$ 9,366,920</u>

Investments held in trust by others represent the market value of Fidelco's rights to split-interest agreements. All of Fidelco's split-interest agreement assets are classified as permanently restricted funds because they are perpetual trusts. The present value of the future payments is estimated to equal the current market value of these investments, and they are recorded by Fidelco at this value.

**NOTE 6 – LINE OF CREDIT**

Fidelco has a \$1,000,000 line of credit, which is secured by real estate and guaranteed by Fidelco. No balances were outstanding at December 31, 2012 and 2011. The line of credit expires on December 24, 2013 and the interest rate is set at the bank's prime rate (3.25% at December 31, 2012).

## NOTE 7 – PENSION PLAN

Fidelco has a defined benefit pension plan covering substantially all employees who meet the eligibility requirements of the pension plan. The pension plan contribution is 2.3% of pay. Pension benefits are based on years of credited service and employees' average annual earnings, as defined in the Plan. Fidelco's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amount recognized in the statements of financial condition as of December 31, 2012 and 2011, using a measurement date of the same dates:

	<u>2012</u>	<u>2011</u>
Projected benefit obligation	\$ (1,853,891)	\$ (1,714,365)
Plan assets at fair value	1,093,334	913,268
Accrued pension	<u>\$ (760,557)</u>	<u>\$ (801,097)</u>
	<u>2012</u>	<u>2011</u>
Accumulated benefit obligation	\$ (1,743,247)	\$ (1,568,889)
Employer contribution	124,641	61,926
Benefits paid	(52,935)	(42,028)

The net periodic benefit cost recognized as changes in unrestricted net assets within the statements of activities is as follows at December 31:

	<u>2012</u>	<u>2011</u>
From operating activities:		
Service cost	\$ 81,367	\$ 71,734
Interest cost	78,073	74,154
Expected return on plan assets	(56,584)	(54,348)
Amortization of net loss	30,679	13,245
Net periodic pension cost	<u>133,535</u>	<u>104,785</u>
Other changes in net assets:		
Net loss	33,021	207,687
Unrecognized pension cost	<u>(30,679)</u>	<u>(13,245)</u>
Pension benefits related to changes other than net periodic pension costs	<u>2,342</u>	<u>194,442</u>
Total recognized in unrestricted net assets	<u>\$ 135,877</u>	<u>\$ 299,227</u>

**NOTE 7 – PENSION PLAN (CONTINUED)**

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost were as follows at December 31:

	<u>2012</u>	<u>2011</u>
Assumptions:		
Weighted average discount rate	<u>4.45%</u>	<u>4.65%</u>
Assumed rate of future compensation increase	<u>3.00%</u>	<u>3.50%</u>
Expected long-term rate of return on plan assets	<u>N/A</u>	<u>6.00%</u>

The expected long-term rate of return on the plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio. Asset allocation is determined by the Board of Directors.

All pension assets consist of mutual funds and are valued utilizing Level 1 inputs, which consists of unadjusted quoted prices in active markets for identical assets.

Fidelco's pension plan by asset category is as follows at December 31, 2012:

Asset category:	
Cash and cash equivalents	4%
Debt securities	34%
Equity securities	<u>62%</u>
	<u>100%</u>

The following future pension benefits are expected to be paid for the years ending December 31:

2013	\$ 57,000
2014	60,000
2015	60,000
2016	59,000
2017	69,000
Five years thereafter	<u>514,000</u>
	<u>\$ 819,000</u>

**NOTE 8 – RELATED PARTIES**

The owner of a roofing company that has a family relationship with a member of Fidelco's management provided roofing services during 2012 and 2011 in the amounts of \$2,823 and \$6,033, respectively.

A board member had a fair market lease agreement for rental of real estate with Fidelco during 2012 and 2011 in the amounts of \$5,220 and \$5,220, respectively.

**NOTE 9 – SUBSEQUENT EVENT**

In connection with the preparation of the financial statement, management has evaluated events subsequent to December 31, 2012 through May 21, 2013, the date the financial statements were available to be issued.