NATIONAL SERVICE DOG TRAINING CENTRE INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

SZCZEPSKI, RACOLTA & CO. LLP
CHARTERED ACCOUNTANTS

CONTENTS

SZCZEPSKI, RACOLTA & CO. LLP
CHARTERED ACCOUNTANTS

George Szczepski
Lucci Racolta
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Anthony Gignac

INDEPENDENT AUDITORS' REPORT

To the Directors of National Service Dog Training Centre Inc.:

We have audited the accompanying financial statements of National Service Dog Training Centre Inc. which comprise the statement of financial position as at December 31, 2012, and the statements of operations and surplus and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the National Service Dog Training Centre Inc. derives a portion of its revenue from the general public in the form of fees, donations and fundraising events which are not susceptible to complete audit verification. Accordingly, our verification of these revenues was limited to the accounting for the amounts recorded in the records of the organization. The organization's amortization policy on the building is not in accordance with Canadian accounting standards for not-for-profit organizations, since the organization is not amortizing its building on 1286 Cedar Creek, Cambridge, Ontario. If amortization was recorded, the current year's charge would be $12,466. The cumulative effect of this policy change from 2009 on the property and surplus would be $53,069.

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Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the National Service Dog Training Centre Inc. as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information

Without modifying our opinion we draw attention to Note 7 to the financial statements, which describes that National Service Dog Training Centre Inc. adopted Canadian accounting standards for not-for-profit organization on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2011 and January 1, 2011, and the statements of financial position, statement of operations and surplus, and the statement of cash flows for the year ended December 31, 2012 and related disclosures.

Szczepski Racolta & Co

Cambridge, Ontario
May 28, 2013

Szczepski, Racolta & Co. LLP
Chartered Accountants
Licensed Public Accountants

NATIONAL SERVICE DOG TRAINING CENTRE INC.
(Incorporated under the laws of Ontario)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012
(With comparative figures as at 2011)

	2012	2011
ASSETS		
CURRENT		
Bank	$ 74,654	$ 55,201
Temporary investments	-	689
Government remittances recoverable	12,866	12,393
	87,520	68,283
PROPERTY AND EQUIPMENT (notes 1 and 3)	560,864	561,167
	$ 648,384	$ 629,450
LIABILITIES		
CURRENT		
Line of credit (note 4)	$ 75,000	$ 33,000
Accounts, payable and accrued	35,562	19,606
Current portion of long-term debt (note 4)	32,263	32,391
	142,825	84,997
LONG-TERM DEBT (note 4)	225,736	264,685
	368,561	349,682
ORGANIZATION'S EQUITY		
SURPLUS, available for future operations	279,823	279,768
	$ 648,384	$ 629,450

APPROVED ON BEHALF OF THE BOARD:

__________ Director   __________ Director

(See accompanying notes to financial statements)

NATIONAL SERVICE DOG TRAINING CENTRE INC.

STATEMENT OF OPERATIONS AND SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative figures for 2011)

	2012	2011
REVENUE		
General donations	$ 354,353	$ 365,063
Fees	13,478	8,642
Gifts-in-kind	110,562	86,588
Events	165,519	175,725
	643,912	636,018
EXPENDITURE		
Amortization	2,777	3,477
Interest on long-term debt (note 4)	15,868	15,676
General	47,556	44,236
Marketing and fund raising material	17,801	23,059
Salaries and wages	322,007	291,457
Supplies, gifts-in-kind	108,050	85,000
Animal care	51,266	48,157
Occupancy costs	31,810	35,143
Client services	46,722	47,534
	643,857	593,739
SURPLUS OF REVENUE OVER EXPENDITURE	**55**	**42,279**
SURPLUS, beginning	279,768	237,489
SURPLUS, ending	$ 279,823	$ 279,768

(See accompanying notes to financial statements)

NATIONAL SERVICE DOG TRAINING CENTRE INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative figures for 2011)

	2012	2011
OPERATING ACTIVITIES		
Surplus of revenue over expenditure	$ 55	$ 42,279
Charges to earnings not requiring cash:		
Amortization	2,777	3,477
	2,832	45,756
CHANGES IN NON-CASH WORKING CAPITAL		
Decrease in temporary investments	689	4,739
Increase in government remittances recoverable	(473)	(2,306)
Increase in accounts, payable and accrued	15,956	213
Cash from operating activities	19,004	48,402
FINANCING ACTIVITIES		
Repayments of long-term debt	(39,077)	(39,697)
Cash used in financing activities	(39,077)	(39,697)
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,474)	-
Cash used in investing activities	(2,474)	-
INCREASE (DECREASE) IN CASH	(22,547)	8,705
BANK, beginning	22,201	13,496
BANK (INDEBTEDNESS), ending	$ (346)	$ 22,201
REPRESENTED BY:		
Bank	$ 74,654	$ 55,201
Line of credit	(75,000)	(33,000)
	$ (346)	$ 22,201
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 15,868	$ 15,676

(See accompanying notes to financial statements)

PURPOSE OF THE ORGANIZATION

The organization is incorporated without share capital under the laws of the province of Ontario as a not for profit organization to operate a facility providing training of service dogs for individuals with disabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - going concern

The financial statements are prepared on the going concern basis which contemplates the realization of assets and the settlement of liabilities in the normal course of operation.

The organization's activities are supported through donations, grants and fundraising activities. The on-going operations of the association could not continue without these sources of funding. These activities are by their very nature not predictible and are not necesarily consistent in either the amount contibuted or the person or entity that provided the contribution, from one fiscal period to the next.

The going concern basis is appropriate as the organization continues to have a strong balance sheet. All forms of revenue are stable. Costs continue to be tightly controlled and the organization has the expectation of continuing to meet the expectations of its user community.

Accrual basis of accounting

Revenues and expenses are recorded on the accrual basis, whereby they are reflected in the accounts in the period in which they have been earned and incurred respectively, whether or not such transactions have been finally settled by the receipt or payment of money.

Income Taxes

The organization is a registered charity under the Income Tax Act and is exempt from income tax.

Capital Disclosures

The organizations' objectives when managing capital are to safeguard the ability of the entity to continue as a going concern. This enables the organization to continue to provide the services required as outlined in Note 1.

The organization manages the capital structure and makes adjustments to it in light of the changes in economic conditions and the risk characteristics of the underlying assets and liabilities.

Departure from Generally Accepted Accounting Standards for Non-for-Profit Organizations

These financial statements have been prepared consistently in accordance with Canadian accounting standards for not-for-profit organizations except that the building is not being amortized, and reflect the following policies:

continued....

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(a) Property and equipment

Property and equipment is recorded at cost. Amortization is provided at the following annual rates:

Office equipment	- 20% declining balance basis
Kennel equipment	- 20% declining balance basis
Vehicles	- 30% declining balance basis
Computer equipment	- 30% declining balance basis
Fencing	- 20% declining balance basis
Maintenance equipment	- 20% declining balance basis
Building, 1286 Cedar Creek	Not amortized

Amortization is calculated at one-half of the normal rate in the year of acquisition.

The building has been appraised by the Municipal Property Assessment Corporation in excess of its historical value, accordingly, no amortization will be recorded in order to realistically disclose the organization's capital investment.

Impairment of long-lived assets

At each reporting date the organization's assets are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations. The recoverable amount of any intangible asset is estimated and compared to the carrying value on an annual basis whether or not there is an indication it is impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

There is no impairment of the organization's assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(b) Revenue recognition

The organization's activities are supported through donations, grants and fundraising activities.

The organization follows the restricted fund method of accounting for contributions.

Restricted contributions related to general operations are recognized as revenue of the operating fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund. Where a portion of a restricted contribution relates to a future period, it is deferred and recognized in the appropriate period.

Unrestricted contributions are recognized as revenue of the operating fund in the year received or receivable if the amount to be received or receivable can be reasonable estimated and collection is reasonably assured.

Investment income is recognized when earned in the fund in which the related asset is held.

Revenues from donations and event fundraising are recognized when received. Revenues from grants are recognized in the period to which they relate. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Gifts in kind are recognized at their estimated fair value at the time that the gift was recieved. As their is often no readily available fair market for these goods or services, the Board uses its expertise and knowledge to estimate the fair value. The offsetting expense is always equal to the value of the revenue.

The organization recognizes revenue when the amount of revenue can be measured reliably and collectability is reasonably assured. Revenue is measured at the fair value of consideration received or receivable.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid financial instruments. Due to the short-term nature of these assets, the fair value of these instruments is not significantly different from their carrying value.

(c) Measurement of financial instruments

The organization recognizes financial assets and financial liabilities when the organization becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred. Measurement in subsequent periods depends on the classification of the financial instrument:

Loans and receivables - Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

continued....

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Instruments Classification

Cash, including any investments with maturity dates of less than three months is classified as held for trading. Short-term and long-term investments are classified as held for trading and are reported at fair value at each financial position date, and any change in fair value is recognized in investment income. Accounts receivable have been classified as receivables and are reported at cost. Accounts payable and accrued charges have been classified as other debt and are reported at cost.

The use of the effective interest method did not provide any additional information for any of the financial instruments owned by the organization as the difference between the cost method and the effective interest method was not significant.

(d) Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires the organization to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from these estimates. Items material to the financial statements that require the use of estimates are rates of amortization for property and equipment and the amount that is recoverable from the government for the harmonized sales tax.

2. ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR PROFIT ORGANIZATIONS

These financial statements were prepared in accordance with Part III of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting ("Part III").

The organization's first reporting period using Part III is for the year ended December 31, 2012. As a result, the date of transition to Part III is January 1, 2011. The organization presented financial statements under its previous Canadian generally accepted accounting principles (CGAAP) annually to December 31 of each fiscal year up to and including December 31, 2011.

As these financial statements are the first financial statements for which the organization has applied Part III, the financial statements have been prepared in accordance with the provisions set out in Section 1501 of Part III, first-time adoption by not-for-profit organizations.

Under the requirements of Canadian accounting standards for not-for-profit organizations, when that accounting basis is initially applied, retrospective adjustments may be required to financial information reported by the organization in previous years. In changing to this new basis of accounting, the organization did not have any adjustments to record as at January 1, 2011, the date of its transition to the new accounting standards.

(a) There were no adjustments to retained earnings required at January 1, 2011.

(b) Reconciliation of previously reported net earnings with the amount shown in these financial statements:

There were no adjustments required.

continued....

2. ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR PROFIT ORGANIZATIONS - continued

(c) Elective exemptions available for use in the transition to Canadian accounting standards for not-for-profit organizations:

The rules for transition to Canadian accounting standards for not-for-profit organizations normally require that an organizations prepare its opening balance sheet using the standards that will be followed thereafter. However, since the organization did not use elective exemptions in the transition, the opening balance sheet as at January 1, 2011 was not presented.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Office equipment	$ 10,934	$ 9,585	$ 1,349	$ 1,686
Kennel equipment	2,225	2,067	158	198
Vehicles	65,228	60,022	5,206	6,254
Computer equipment	8,756	8,239	517	738
Fencing	711	683	28	35
Building, 1286 Cedar Creek	390,256	38,000	352,256	352,256
Land, 1286 Cedar Creek	200,000	-	200,000	200,000
Maintenance equipment	1,500	150	1,350	-
	$ 679,610	$ 118,746	$ 560,864	$ 561,167

4. LONG-TERM DEBT

	2012	2011
Scotia Bank term loan was paid in full during the year	$ -	$ 6,814
Royal Bank loan bearing interest at bank prime plus 1.75 per cent is repayable in quarterly principal payments of $1,380 each plus monthly interest payments, due October 2020. It is secured by property located at 1286 Cedar Creek Road, Cambridge.	44,056	49,576
Royal Bank first mortgage bearing interest at bank prime plus 1.75 per cent is repayable in four principal payments of $6,686 each plus monthly interest payments, due October 2020. It is secured by property located at 1286 Cedar Creek Road, Cambridge.	213,943	240,686
	257,999	297,076
Less principal due within one year	32,263	32,391
	$ 225,736	$ 264,685

continued....

4. LONG-TERM DEBT - continued

Interest expense for the above loans totalled approximately $15,676 (2011 - $16,506). Principal payments are as follows:

2013	$	32,263
2014		32,263
2015		32,263
2016		32,263
2017		32,263
thereafter		96,684
	$	257,999

(a) Line of credit

The organization has an available operating loan from the Royal Bank of Canada in the amount of $75,000. Interest is charged on outstanding balances at prime plus 1.75 per cent. Balance is due on demand and is secured by a general security agreement. As at December 31, 2012, there was a balance outstanding of $75,000 (2011 - $33,000).

5. DONATED GOODS AND SERVICES

The work of the organization is dependent on volunteer services of the Board of Directors, various committees and other volunteers. The organization is now recording donated gifts in kind, which were not recorded prior to 2011. However, the nature of other volunteer services provided is not verifiable and therefore is not recognized in these financial statements.

6. FINANCIAL INSTRUMENT RISKS

Fair Value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the organization is a going concern and thus expects to fully repay the outstanding amounts. The organization's financial instruments consist of cash, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant currency, price or market risks arising from these financial instruments.

6. FINANCIAL INSTRUMENT RISKS - continued

Credit risk

The organization is exposed to credit risk on the government remittances receivable of $12,866 (2011- $12,393). Credit risk is the risk that other organizations, contributors and government agencies that owe monies to the organization will not repay their obligations as they become due. The organization manages this risk by endeavouring to ensure as best as possible that all claims submitted to each of the government agencies with whom they transact business are submitted correctly and on a timely basis to ensure that the amounts recorded as amounts receivable will be received as anticipated by the organization. In the opinion of management the credit risk is low and is not a material risk to the organization. This risk has remained unchanged from the prior year. The organization does have a concentration risk associated with government remittances receivable as all of the government remittances receivable are associated with one government agency.

The organization also has credit risk relating to cash and cash equivalents, which it manages by dealing with large chartered banks in Canada and investing in highly liquid investments. The organization's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid investments such as money market funds. The organization's cash and cash equivalents carrying value is $74,654 (2011- $55,890) representing the maximum exposure to credit risk of these financial assets. there is a concentration risk associated with cash and cash equivalents as all of the cash and cash equivalents were held by one financial institution. In the opinion of management the credit risk associated with cash and cash equivalents is low and is not a material risk to the organization. This risk has remained unchanged from the prior year.

The organization is exposed to liquidity risk on the bank indebtedness, accounts payable and long term debt of $368,561 (2011- $349,682). Liquidity risk is the risk that the organization will not repay their obligations as they become due. The organization manages this risk by ensuring that it prepares an annual budget wherein it plans its revenues and expenditures.The organization meets its liquidity requirements by monitoring cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash. The organization has a credit facility in place should it be required to meet temporary fluctuations in cash requirements and to ensure the timely payment of all its obligations. In the opinion of management the liquidity risk is low and is not a material risk to the organization. This risk has remained unchanged from the prior year.

Interest rate risk

The organization is exposed to interest rate risk. Interest rate risk is the risk that the organization has interest rate exposure on its bank indebtedness, which are variable based on the bank's prime rates. This exposure may have an effect on its earnings in future periods. The organization reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates which have been relatively stable over the period presented. There are some loans payable that are at fixed term rates, or zero interest rates and do not affect interest rate risk. The organization does not use derivative instruments to reduce its exposure to interest rate risk. In the opinion of management the interest rate risk exposure to the organization is low and is not material. The risk is unchanged from the prior year.

7. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the presentation adopted in the current year.