

SIRE, Inc.

Financial Statements

June 30, 2018



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRIcpa.com



SIRE, Inc.
Table of Contents
June 30, 2018

Report

| | |
|------------------------------|---|
| Independent Auditors' Report | 1 |
|------------------------------|---|

Financial Statements

| | |
|---|---|
| Statement of Financial Position as of June 30, 2018 | 3 |
|---|---|

| | |
|--|---|
| Statement of Activities for the Year Ended June 30, 2018 | 4 |
|--|---|

| | |
|---|---|
| Statement of Functional Expenses for the Year Ended June 30, 2018 | 5 |
|---|---|

| | |
|--|---|
| Statement of Cash Flows for the Year Ended June 30, 2018 | 6 |
|--|---|

| | |
|-------------------------------|---|
| Notes to Financial Statements | 7 |
|-------------------------------|---|



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
SIRE, Inc.
Hockley, Texas

We have audited the accompanying financial statements of SIRE, Inc. (SIRE) (a Texas Non-Profit Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 SIRE, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Casey Riggs & Ingram, L.L.C.

Houston, Texas
September 25, 2018

SIRE, Inc.
Statement of Financial Position

| <i>June 30,</i> | 2018 |
|---|--------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 132,370 |
| Accounts receivable | 21,063 |
| Total current assets | 153,433 |
| Property and equipment, net | 1,013,498 |
| Total assets | \$ 1,166,931 |
| Liabilities and net assets | |
| Current liabilities | |
| Accounts payable | \$ 14,628 |
| Accrued expenses | 26,119 |
| Deferred revenue | 33,243 |
| Line of credit | 90,304 |
| Current maturities of note payable | 5,398 |
| Total current liabilities | 169,692 |
| Note payable, net of current maturities | 133,077 |
| Total liabilities | 302,769 |
| Commitments and contingencies | |
| Net assets | |
| Unrestricted | 736,885 |
| Temporarily restricted | 127,277 |
| Total net assets | 864,162 |
| Total liabilities and net assets | \$ 1,166,931 |

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

SIRE, Inc.
Statement of Activities

For the Year Ended June 30,

| | 2018 | | |
|--|-------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Revenue and support | | | |
| Contributions | \$ 451,732 | \$ 57,750 | \$ 509,482 |
| Tuition | 369,331 | - | 369,331 |
| Special events, net of direct donor benefit costs of \$75,251 | 240,622 | - | 240,622 |
| Investment income | 56 | - | 56 |
| Other income | 35,514 | - | 35,514 |
| Net assets released from restrictions | 160,150 | (160,150) | - |
| Total revenue and support | 1,257,405 | (102,400) | 1,155,005 |
| Expenses | | | |
| Program services | 960,068 | - | 960,068 |
| General and administrative | 197,808 | - | 197,808 |
| Fundraising | 123,772 | - | 123,772 |
| Loss on impairment of assets, net | 127,478 | - | 127,478 |
| Total expenses | 1,409,126 | - | 1,409,126 |
| Change in net assets | (151,721) | (102,400) | (254,121) |
| Net assets at beginning of year | 888,606 | 229,677 | 1,118,283 |
| Net assets at end of year | \$ 736,885 | \$ 127,277 | \$ 864,162 |

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

SIRE, Inc.
Statement of Functional Expenses

| <i>For the Year Ended June 30,</i> | 2018 | | | |
|---|-------------------|---------------------------------------|--------------------|---------------------|
| | Programs | General and Administrative | Fundraising | Total |
| Personnel costs | | | | |
| Salaries | \$ 520,641 | \$ 73,237 | \$ 67,370 | \$ 661,248 |
| Payroll taxes, workman's compensation and benefits | 79,477 | 23,179 | 7,777 | 110,433 |
| Total personnel costs | 600,118 | 96,416 | 75,147 | 771,681 |
| Clients | 19,004 | 261 | - | 19,265 |
| Contract services | 14,620 | 35,522 | - | 50,142 |
| Equine | 126,064 | 286 | - | 126,350 |
| Facilities costs | | | | |
| Insurance | 25,451 | (277) | - | 25,174 |
| Maintenance | 47,305 | - | - | 47,305 |
| Rent | - | 20,978 | - | 20,978 |
| Utilities | 21,758 | 60 | - | 21,818 |
| Fundraising | - | - | 36,561 | 36,561 |
| Operations | | | | |
| Office equipment and supplies | 7,554 | 3,689 | 1 | 11,244 |
| Postage and shipping | 200 | 1,697 | 2,317 | 4,214 |
| Printing | 3,312 | 1,862 | 7,623 | 12,797 |
| Telephone | 2,991 | 5,296 | - | 8,287 |
| Other expenses | | | | |
| Dues and subscriptions | 3,100 | 8,490 | 229 | 11,819 |
| Insurance | 1,908 | 8,064 | - | 9,972 |
| Other expenses | 3,262 | (1,848) | 1,368 | 2,782 |
| Travel and meetings | 8,313 | 9,816 | 526 | 18,655 |
| Volunteers | 1,390 | 49 | - | 1,439 |
| Interest expense | 7,994 | 4,717 | - | 12,711 |
| Bad debt expense | 5,082 | - | - | 5,082 |
| | 899,426 | 195,078 | 123,772 | 1,218,276 |
| Facilities costs - depreciation | 60,642 | 2,730 | - | 63,372 |
| Total expenses | \$ 960,068 | \$ 197,808 | \$ 123,772 | \$ 1,281,648 |

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

SIRE, Inc.
Statement of Cash Flows

| <i>For the Year Ended June 30,</i> | 2018 |
|--|-------------------|
| Operating activities | |
| Changes in net assets | \$ (254,121) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | |
| Bad debt expense | 5,082 |
| Depreciation | 63,372 |
| Loss on impairment of assets | 127,478 |
| Changes in operating assets and liabilities | |
| Accounts receivable | 5,102 |
| Prepaid expenses | 5,338 |
| Accounts payable | (3,756) |
| Accrued expenses | 11,942 |
| Deferred revenue | 5,846 |
| Net cash used in operating activities | (33,717) |
| Investing activities | |
| Purchases of property and equipment | (79,453) |
| Financing activities | |
| Net borrowings on line of credit | 20,755 |
| Principal payments on debt obligations | (4,623) |
| Net cash provided by financing activities | 16,132 |
| Net decrease in cash and cash equivalents | (97,038) |
| Cash and cash equivalents at beginning of year | 229,408 |
| Cash and cash equivalents at end of year | \$ 132,370 |
| Supplemental disclosure of cash flow information | |
| Cash paid for interest | \$ 12,711 |

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

NOTE 1: ORGANIZATION

SIRE, Inc. ("SIRE") is a nonprofit corporation incorporated under the laws of the state of Texas in 1985. The mission of SIRE is to improve the quality of life for people with special needs through therapeutic horsemanship activities and therapies, and educational outreach. SIRE provides riding and related activities in Hockley, Spring and Richmond, Texas to benefit the Greater Houston area. SIRE's support primarily comes from donor contributions and tuition fees.

Effective January 1, 2017, SIRE changed its fiscal year to begin on July 1st and end on June 30th.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Basis of Accounting

SIRE's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. SIRE's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor imposed restrictions. Accordingly, net assets of SIRE and changes therein are classified and reported as follows:

- Unrestricted - net assets that are not subject to 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 SIRE is subject to donor imposed stipulations that can be fulfilled by action of SIRE pursuant to those stipulations or that expire by the passage of time.
- Permanently Restricted - net assets subject to donor imposed stipulations that assets be maintained permanently by SIRE.

Support that is restricted by the donor and is to be used in future periods or for a specific purpose is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash Equivalents

SIRE considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

SIRE extends credit to its clients for tuition. Receivables over 30 days are considered past due. SIRE considers tuition receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

At various times during the year SIRE's cash balances may exceed federally insured limits. Cash accounts at banks are insured by the FDIC up to \$250,000. SIRE has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash and cash equivalents due to the financial strength of the financial institutions where deposits are held.

Property and Equipment

Property and equipment are recorded at cost, or in the case of donated property, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful life which ranges from five to forty years. Maintenance and repairs are charged to expense while expenditures for improvements are capitalized.

Impairment of Long-Lived Assets

SIRE's long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to remaining long-lived assets at June 30, 2018 (See note 3).

Deferred Revenue

Tuition is recognized in the period in which it is earned. Since the 2018 summer semester occurs during two different accounting periods, the portion applicable to the next reporting period is recorded as deferred revenue. Contributions raised for the benefit of fundraising events set to occur in a future period are also recorded as deferred revenue.

Contributions

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support.

Support that is restricted by the donor and is to be used in future periods or for a specific purpose is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Tuition income and special event income are recognized as revenue when the services or products are provided, or the event occurs.

Clients are charged tuition based on the nature and amount of services performed by SIRE on the clients' behalf. All clients' tuition is subsidized and tuition rates are generally set to cover 40% of costs. In addition to the standard subsidy, during 2018, 20% of clients who would otherwise not have been able to participate received additional reduced tuition from the published tuition rates.

Donated Materials and Services

Donated materials and equipment associated with the facilities are recorded as support at their fair market values at date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. For the year ended June 30, 2018, SIRE received \$6,864, in donated property and equipment, which have been recorded as contributions in the statement of activities.

A substantial number of volunteers have contributed significant amounts of time in conjunction with the program services and fundraising campaigns of SIRE for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under accounting principles generally accepted in the United States of America. For the year ended June 30, 2018, approximately 30,600 volunteer hours were performed at an estimated value of approximately \$756,000.

Fair Value Considerations

SIRE uses fair value to measure financial and certain nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SIRE did not elect the fair value option for the measurement of any eligible assets or liabilities.

SIRE's financial instruments (primarily cash and cash equivalents, receivables, payables and debt) are carried in the financial statements at amounts that reasonably approximate fair value.

Functional Expenses

The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on various determinations by management.

Income Taxes

SIRE is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been made in these financial statements. SIRE accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of June 30, 2018, management believes there were no uncertain tax positions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from the estimates used.

Subsequent Events

SIRE has evaluated subsequent events through the time the financial statements are available for issuance on September 25, 2018. No matters were identified affecting the accompanying financial statements or related disclosures.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Financial Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, SIRE will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of SIRE's financial statements. SIRE did not elect to early adopt this standard.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| <i>June 30,</i> | 2018 |
|---------------------------|---------------------|
| Land | \$ 437,497 |
| Building and improvements | 977,809 |
| Equipment | 331,747 |
| Horses | 37,000 |
| | 1,784,053 |
| Accumulated depreciation | (770,555) |
| | \$ 1,013,498 |

Depreciation expense for the year ended June 30, 2018 totaled \$63,372. In addition, during the year ended June 30, 2018, management recorded a loss on impairment of assets totaling \$127,478.

NOTE 4: LINE OF CREDIT

SIRE has an unsecured \$100,000 line of credit with a bank. The line of credit requires minimum monthly payments of 1% of the outstanding balance and bears interest at prime plus 1%. The line of credit has no stated maturity. At June 30, 2018, there were outstanding borrowings totaling \$90,304 under the line of credit.

SIRE, Inc.
Notes to Financial Statements

NOTE 5: NOTE PAYABLE

In February 2013, SIRE purchased approximately 16 acres of land adjacent to the Hockley, Texas facilities. The land was acquired by executing a note payable with the seller for \$157,000. Under the terms of the note agreement, SIRE made monthly principal and interest payments totaling \$1,210, and the interest rate was 7%. SIRE refinanced the note during 2014 with a financial institution. Under the terms of the new financing agreement, SIRE makes monthly payments (including principal and interest) totaling \$1,082, and the interest rate is fixed (5.5%) for the first five years. After the first five years, interest will be based on the Wall Street Journal prime rate (with a floor of 5.5%) until maturity. The note payable matures in September 2034 and is secured by the underlying property.

Future minimum principal payments under the note payable are as follows:

| <i>Year ending June 30,</i> | | |
|-----------------------------|----|---------|
| 2019 | \$ | 5,398 |
| 2020 | | 5,687 |
| 2021 | | 6,032 |
| 2022 | | 6,377 |
| 2023 | | 6,741 |
| Thereafter | | 108,240 |
| | \$ | 138,475 |

NOTE 6: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| <i>June 30,</i> | | 2018 |
|-----------------|----|-------------|
| Spring site | \$ | 92,077 |
| Equipment | | 18,500 |
| Financial aid | | 15,000 |
| Personnel costs | | 1,700 |
| | \$ | 127,277 |

NOTE 7: NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended June 30, 2018, temporarily restricted net assets of \$160,150 were released from donor restrictions by satisfying donor restrictions.

NOTE 8: LEASES

In April 2016, SIRE entered into a noncancellable lease agreement for office space in Houston, Texas which expires in April 2021. Future minimum lease payments are as follows:

| <i>Year ending June 30,</i> | |
|-----------------------------|------------------|
| 2019 | \$ 20,994 |
| 2020 | 21,532 |
| 2021 | 18,310 |
| | \$ 60,836 |

Rent expense totaled \$20,978 for the year ended June 30, 2018.

SIRE receives monthly lease payments for a cell tower located on land owned by SIRE. Lease income totaled \$5,167 for the year ended June 30, 2018. The lease will continue in accordance with the terms of the agreement and automatically renews for successive renewal terms unless otherwise notified in accordance with the agreement.