

SIRE, Inc.

FINANCIAL STATEMENTS


June 30, 2019 and 2018



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SIRE, Inc.
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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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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 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 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 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, 2019 and 2018, 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.

Case, Riggs & Ingram, L.L.C.

Houston, Texas
September 24, 2019

SIRE, Inc.
Statements of Financial Position

<i>June 30,</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 254,468	\$ 132,370
Accounts receivable	28,092	21,063
Pledges receivable	5,000	-
Total current assets	287,560	153,433
Pledges receivable	5,000	-
Property and equipment, net	982,385	1,013,498
Total assets	\$ 1,274,945	\$ 1,166,931
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 9,832	\$ 14,628
Accrued expenses	18,156	26,119
Deferred revenue	14,983	33,243
Line of credit	-	90,304
Current maturities of note payable	5,687	5,398
Total current liabilities	48,658	169,692
Note payable, net of current maturities	126,549	133,077
Total liabilities	175,207	302,769
Commitments and contingencies		
Net assets		
Without donor restrictions	986,709	736,885
With donor restrictions	113,029	127,277
Total net assets	1,099,738	864,162
Total liabilities and net assets	\$ 1,274,945	\$ 1,166,931

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

SIRE, Inc.
Statements of Activities

<i>For the Years Ended June 30,</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Contributions	\$ 645,913	\$ 65,000	\$ 710,913	\$ 451,732	\$ 57,750	\$ 509,482
Tuition	376,355	-	376,355	369,331	-	369,331
Special events, net of direct donor benefit costs of \$53,562 and \$75,271, respectively	263,574	-	263,574	240,622	-	240,622
Investment and other income	20,391	-	20,391	35,570	-	35,570
Net assets released from restrictions	79,248	(79,248)	-	160,150	(160,150)	-
Total revenue and support	1,385,481	(14,248)	1,371,233	1,257,405	(102,400)	1,155,005
Expenses						
Program services	811,613	-	811,613	960,068	-	960,068
General and administrative	212,659	-	212,659	197,808	-	197,808
Fundraising	111,385	-	111,385	123,772	-	123,772
Loss on impairment of assets, net	-	-	-	127,478	-	127,478
Total expenses	1,135,657	-	1,135,657	1,409,126	-	1,409,126
Change in net assets	249,824	(14,248)	235,576	(151,721)	(102,400)	(254,121)
Net assets at beginning of year	736,885	127,277	864,162	888,606	229,677	1,118,283
Net assets at end of year	\$ 986,709	\$ 113,029	\$ 1,099,738	\$ 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>	2019			
	Programs	General and Administrative	Fundraising	Total
Personnel costs				
Salaries	\$ 444,693	\$ 62,629	\$ 63,908	\$ 571,230
Payroll taxes, workman's compensation and benefits	52,598	24,614	5,144	82,356
Total personnel costs	497,291	87,243	69,052	653,586
Clients	17,350	-	-	17,350
Contract services	534	53,144	4,889	58,567
Equine	112,248	469	-	112,717
Facilities costs				
Insurance	14,642	8	-	14,650
Maintenance	39,951	455	-	40,406
Rent	-	20,964	-	20,964
Utilities	20,777	-	-	20,777
Fundraising	-	-	80,177	80,177
Operations				
Office equipment and supplies	10,010	4,808	129	14,947
Postage and shipping	128	2,237	65	2,430
Printing	1,235	3,757	5,840	10,832
Telephone	4,341	8,041	-	12,382
Other expenses				
Advertising	4,885	8,076	2,943	15,904
Dues and subscriptions	5,493	7,409	343	13,245
Insurance	-	6,040	-	6,040
Other expenses	2,280	2,149	483	4,912
Travel and meetings	13,134	4,310	1,026	18,470
Volunteers	3,396	38	-	3,434
Interest expense	6,848	1,585	-	8,433
Bad debt expense	2,503	-	-	2,503
	757,046	210,733	164,947	1,132,726
Facilities costs - depreciation	54,567	1,926	-	56,493
Total expenses	811,613	212,659	164,947	1,189,219
Less: Direct donor benefits - special events	-	-	(53,562)	(53,562)
Expenses reported by function	\$ 811,613	\$ 212,659	\$ 111,385	\$ 1,135,657

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	-	-	111,832	111,832
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	199,043	1,293,547
Facilities costs - depreciation	60,642	2,730	-	63,372
Total expenses	960,068	197,808	199,043	1,356,919
Less: Direct donor benefits - special events			(75,271)	(75,271)
Expenses reported by function	\$ 960,068	\$ 197,808	\$ 123,772	\$ 1,281,648

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

SIRE, Inc.
Statements of Cash Flows

<i>For the Years Ended June 30,</i>	2019	2018
Operating activities		
Changes in net assets	\$ 235,576	\$ (254,121)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Bad debt expense	2,503	5,082
Depreciation	56,493	63,372
Donated assets	(6,780)	(6,864)
Loss on sale of assets	500	-
Loss on impairment of assets	-	127,478
Changes in operating assets and liabilities		
Accounts receivable	(9,532)	5,102
Pledges receivable	(10,000)	-
Prepaid expenses	-	5,338
Accounts payable	(4,796)	(3,756)
Accrued expenses	(7,963)	11,942
Deferred revenue	(18,260)	5,846
Net cash provided by (used in) operating activities	237,741	(40,581)
Investing activities		
Proceeds from sale of assets	5,000	-
Purchases of property and equipment	(24,100)	(72,589)
Net cash used in investing activities	(19,100)	(72,589)
Financing activities		
Net (repayments) borrowings on line of credit	(90,304)	20,755
Principal payments on note payable	(6,239)	(4,623)
Net cash (used in) provided by financing activities	(96,543)	16,132
Net increase (decrease) in cash and cash equivalents	122,098	(97,038)
Cash and cash equivalents at beginning of year	132,370	229,408
Cash and cash equivalents at end of year	\$ 254,468	\$ 132,370
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 8,433	\$ 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Change in Accounting Principle

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14. Presentation of Financial Statements for Not-for-Profit Entities. SIRE adopted the provisions of this new standard during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses.

The accompanying information for the 2018 financial statements has been restated to conform to the 2019 presentation and disclosure requirements of ASU 2016-04.

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:

- Net Assets Without Donor Restrictions - net assets that are not subject to or are no longer subject to donor imposed stipulations. Net assets without donor restriction may be designated for specific purposes by action of the Board of Directors.
- Net Assets With Donor Restrictions - 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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Receivable amounts are due in fiscal year 2020 and 2021. No allowance was recorded as of June 30, 2019 as management believes all remaining amounts to be fully collectible.

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, 2019 and 2018 (See note 4).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Tuition is recognized in the period in which it is earned. Since the 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 net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

One donor represented 28% of contribution revenue for the year ended June 30, 2019. There were no donor concentrations for the year ended June 30, 2018.

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 2019 and 2018, 21% and 20%, respectively, 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 years ended June 30, 2019 and 2018, SIRE received \$6,780 and \$6,864, respectively, in donated property and equipment, which have been recorded as contributions in the statements of activities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 years ended June 30, 2019 and 2018, approximately 28,000 and 30,600 volunteer hours were performed at an estimated value of approximately \$711,000 and \$756,000, respectively.

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).

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 costs of providing various program and other activities have been summarized on a functional basis in the statements of activities and statements of 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. Personnel costs have been allocated among the programs and supporting services benefited based on management's estimates of time and effort.

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, 2019 and 2018, management believes there were no uncertain tax positions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Recent Financial Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The revenue recognition standard affects all entities that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. Revenue is recognized when a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). An entity should consider the terms of the contract and all relevant facts and circumstances when applying the revenue recognition standard. An entity should apply the revenue recognition standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances. This new guidance is effective for all reporting periods beginning after December 15, 2018. SIRE is currently evaluating the impact of the guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which an organization serves as a resource recipient for fiscal years beginning after December 15, 2018. SIRE is currently evaluating the impact of the guidance on its financial statements.

Subsequent Events

SIRE has evaluated subsequent events through the time the financial statements are available for issuance on September 24, 2019. No matters were identified affecting the accompanying financial statements or related disclosures.

NOTE 3: LIQUIDITY

SIRE's primary sources of support are contributions and tuition. Fundraising events are held during the year to support SIRE's budget. As of June 30, 2019, SIRE had \$195,483 of financial assets available within one year of the balance sheet date consisting of cash, accounts and pledges receivable. This amount is offset by \$92,077 of net assets with donor restrictions that are not expected to be used for operations within one year. Should it be necessary, SIRE has access to a line of credit for borrowings up to \$100,000 (See note 5).

SIRE, Inc.
Notes to Financial Statements

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>June 30,</i>	2019	2018
Land	\$ 437,497	\$ 437,497
Building and improvements	977,809	977,809
Equipment	357,127	331,747
Horses	37,000	37,000
	1,809,433	1,784,053
Accumulated depreciation	(827,048)	(770,555)
	\$ 982,385	\$ 1,013,498

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$56,493 and \$63,372, respectively. In addition, during the year ended June 30, 2018, management recorded a loss on impairment of assets totaling \$127,478. No such loss was recorded for the year ended June 30, 2019.

NOTE 5: 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. No amounts were outstanding under the line of credit at June 30, 2019.

NOTE 6: 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. 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.

SIRE, Inc.
Notes to Financial Statements

NOTE 6: NOTE PAYABLE (Continued)

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

<i>Year ending June 30,</i>	
2020	\$ 5,687
2021	6,032
2022	6,377
2023	6,741
2024	7,112
Thereafter	100,287
	\$ 132,236

NOTE 7: RESTRICTIONS ON NET ASSETS

Net assets with restrictions are available for the following purposes:

<i>June 30,</i>	2019	2018
Spring site	\$ 92,077	\$ 92,077
Equipment	10,952	18,500
Financial aid	-	15,000
Personnel costs	-	1,700
For periods after June 30	10,000	-
	\$ 113,029	\$ 127,277

NOTE 8: NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended June 30, 2019 and 2018, net assets with donor restrictions of \$79,248 and \$160,150, respectively, were released from donor restrictions by satisfying donor restrictions.

SIRE, Inc.
Notes to Financial Statements

NOTE 9: 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>	
2020	\$ 21,532
2021	18,310
	\$ 39,842

Rent expense totaled \$20,964 and \$20,978 for the years ended June 30, 2019 and 2018, respectively.

SIRE receives monthly lease payments for a cell tower located on land owned by SIRE. Lease income totaled \$5,124 and \$5,167 for the years ended June 30, 2019 and 2018, respectively. 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.