

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENTS OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	
YEAR ENDED DECEMBER 31, 2019	4
YEAR ENDED DECEMBER 31, 2018	5
STATEMENT OF FUNCTIONAL EXPENSES	
YEAR ENDED DECEMBER 31, 2019	6
YEAR ENDED DECEMBER 31, 2018	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Texas Hearing and Service Dogs, Inc.  
dba Service Dogs, Inc.  
Austin, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Texas Hearing and Service Dogs, Inc. dba Service Dogs, Inc. (the Organization), which comprise the statements of financial position as of December 31, 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 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 audits 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 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 auditors consider internal control relevant to the Organization'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 Organization'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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Atchley & Associates, LLP*

Austin, Texas

July 30, 2020

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 33,755	\$ 34,802
Grants receivable	100,000	100,000
Other receivables	-	23,639
Prepaid expenses	-	3,412
	133,755	161,853
Grant receivable, net of current portion	-	100,000
Property and equipment, net	743,203	763,460
Total assets	\$ 876,958	\$1,025,313
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 7,419	\$ 5,837
Accrued expenses	-	6,377
Deferred revenue	9,000	20,900
Line of credit	150,000	-
Current portion of long-term debt	3,854	3,734
	170,273	36,848
Long-term debt, less current portion	6,035	9,869
Total liabilities	176,308	46,717
Net assets		
Without donor restrictions	523,950	788,597
With donor restrictions	176,700	189,999
	700,650	978,596
Total liabilities and net assets	\$ 876,958	\$1,025,313

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

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions and grants:			
Individuals	\$ 283,140	\$ -	\$ 283,140
Foundations	130,681	-	130,681
Businesses	37,328	-	37,328
Service organizations	25,337	-	25,337
Special events	134,817	-	134,817
Interest income	29	-	29
Other	1,859	-	1,859
	613,191	-	613,191
Net assets released from restrictions	13,299	(13,299)	-
Total revenues	626,490	(13,299)	613,191
Expenses			
Program services	708,026	-	708,026
Management and general	36,230	-	36,230
Fundraising	146,881	-	146,881
	891,137	-	891,137
Change in net assets	(264,647)	(13,299)	(277,946)
Net assets, beginning of year	788,597	189,999	978,596
Net assets, end of year	\$ 523,950	\$ 176,700	\$ 700,650

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

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions and grants:			
Individuals	\$ 375,434	\$ -	\$ 375,434
Foundations	237,967	-	237,967
Businesses	205,311	189,999	395,310
Service organizations	18,762	-	18,762
Special events	122,570	-	122,570
Interest income	441	-	441
Other	10,766	-	10,766
	971,251	189,999	1,161,250
Net assets released from restrictions	-	-	-
Total revenues	971,251	189,999	1,161,250
Expenses			
Program services	825,552	-	825,552
Management and general	42,131	-	42,131
Fundraising	120,723	-	120,723
Total expenses	988,406	-	988,406
Change in net assets	(17,155)	189,999	172,844
Net assets, beginning of year	805,752	-	805,752
Net assets, end of year	\$ 788,597	\$ 189,999	\$ 978,596

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

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising	Total
Accounting fees	\$ 13,063	\$ -	\$ -	\$ 13,063
Bank and credit card fees	3,946	157	1,434	5,537
Depreciation	40,678	-	-	40,678
Dog supplies	4,960	-	-	4,960
Insurance	20,899	-	-	20,899
Interest expense	5,730	244	-	5,974
Office supplies	2,050	-	-	2,050
Other	5,700	-	433	6,133
Payroll processing fees	6,089	466	1,452	8,007
Postage	547	-	-	547
Printing	2,637	-	-	2,637
Professional development	1,200	-	-	1,200
Professional services	45,857	30	13,156	59,043
Promotional	447	-	-	447
Repairs and maintenance	4,482	617	-	5,099
Salaries, payroll taxes, and benefits	465,143	33,477	120,981	619,601
Supplies for events	13,015	-	9,204	22,219
Telephone	8,647	-	-	8,647
Travel	34,361	-	-	34,361
Uniforms	1,682	-	221	1,903
Utilities	13,529	1,239	-	14,768
Veterinarian	8,189	-	-	8,189
Website maintenance	5,175	-	-	5,175
<b>Total expenses</b>	<b>\$ 708,026</b>	<b>\$ 36,230</b>	<b>\$ 146,881</b>	<b>\$ 891,137</b>

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



TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Accounting fees	\$ 12,056	\$ -	\$ -	\$ 12,056
Bank and credit card fees	1,234	120	2,149	3,503
Depreciation	39,903	-	-	39,903
Dog supplies	8,672	-	-	8,672
Insurance	23,737	-	-	23,737
Interest expense	384	103	-	487
Office supplies	2,809	360	-	3,169
Other	3,956	832	-	4,788
Payroll processing fees	5,737	570	1,029	7,336
Postage	1,056	-	-	1,056
Printing	3,775	-	77	3,852
Professional development	3,224	-	-	3,224
Professional services	53,655	475	10,114	64,244
Promotional	4,436	-	4,411	8,847
Repairs and maintenance	15,459	1,604	-	17,063
Salaries, payroll taxes, and benefits	558,621	36,862	96,682	692,165
Supplies for events	9,177	-	6,183	15,360
Telephone	9,583	174	-	9,757
Travel	43,490	(4)	-	43,486
Uniforms	196	-	78	274
Utilities	13,775	1,035	-	14,810
Veterinarian	10,117	-	-	10,117
Website maintenance	500	-	-	500
<b>Total expenses</b>	<b>\$ 825,552</b>	<b>\$ 42,131</b>	<b>\$ 120,723</b>	<b>\$ 988,406</b>

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

TEXAS HEARING AND SERVICE DOGS, INC.  
 dba SERVICE DOGS, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Operating activities</b>		
Change in net assets	\$ (277,946)	\$ 172,844
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	40,678	39,903
Change in operating assets and liabilities -		
Grants receivable	100,000	(200,000)
Other receivables	23,639	(23,639)
Prepaid expenses	3,412	3,227
Accounts payable	1,582	(2,237)
Accrued expenses	(6,377)	6,377
Deferred revenue	(11,900)	20,900
Net cash flows from operating activities	(126,912)	17,375
<b>Investing activities</b>		
Purchases of property and equipment	(20,421)	(29,470)
Net cash flows from investing activities	(20,421)	(29,470)
<b>Financing activities</b>		
Net change in line of credit	150,000	-
Payments on long-term debt	(3,714)	(3,298)
Net cash flows from financing activities	146,286	(3,298)
Net change in cash and cash equivalents	(1,047)	(15,393)
<b>Cash and cash equivalents - beginning of year</b>	34,802	50,195
<b>Cash and cash equivalents - end of year</b>	\$ 33,755	\$ 34,802
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 5,974	\$ 487

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

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES**

**Organization and Nature of Activities**

Texas Hearing and Service Dogs, Inc. dba Service Dogs, Inc. (the Organization) is a non-profit, tax-exempt organization which brings greater independence to people living with disabilities through partnership with a working dog. The Organization accomplishes its mission by providing dogs and training free of charge to recipients.

**Basis of Presentation**

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

*Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**Grants Receivable**

Grants receivable are promises to give due within one year. Accounts determined to be uncollectible are charged against an allowance for uncollectible accounts. At December 31, 2019 and 2018, the Organization considered all receivables to be fully collectible, and therefore, an uncollectible account is not considered necessary.

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - continued**

**Revenue Recognition**

The Organization recognizes contributions as revenue when received or unconditionally promised. Contributions are measured at the fair value of the assets or services received or promised. Revenues from program service fees and special events are recognized when earned. Revenues are classified as restricted support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires in the same period received, the contribution is recognized as unrestricted support.

Contributed goods and services are reported as support. Contributed goods are recorded as noncash contributions at an estimated fair value based on the price provided by the donor. Contributed services are recorded as contributions if the services, a) create or enhance non-financial assets, b) require specialized skills, c) are provided by individuals possessing those skills, and d) would typically need to be purchased if not provided by donation. The value of the noncash contributions is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent.

**Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair value if the fair market value exceeds \$500. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Organization capitalizes all purchased depreciable assets with a cost equal to or greater than \$500 with a useful life of more than one year. Property and equipment are carried at cost or fair market value at the time of donation less accumulated depreciation. Maintenance and repairs which do not improve or extend the useful lives of the fixed assets are charged to expense.

The Organization uses the straight-line method of computing depreciation over the estimated useful lives of the various assets. Major categories of depreciable assets and their estimated useful lives are:

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - continued**

**Property and Equipment - continued**

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Building	39 years
Leasehold improvements	10 - 15 years
Furniture and equipment	3 - 10 years
Vehicles	5 years
Computer software and hardware	3 years

**Functional Allocation of Expenses**

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses are allocated by time and effort.

**Income Taxes**

The Internal Revenue Service has classified the Organization as other than a private foundation, which is exempt from federal income taxes on its related purpose income under Section 501(c)(3) of the United States Internal Revenue Code. Consequently, no federal income taxes have been provided for in these financial statements.

The Organization's federal returns for the years ended December 31, 2016, and after are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

The Organization has adopted ASC 740, *Accounting for Uncertainty in Income Taxes*. That standard prescribes a minimum threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of December 31, 2019 and 2018, the Organization has not recognized liabilities for uncertain tax positions or associated interest and penalties.

TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - continued**

**Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recently Issued Accounting Pronouncements**

The Organization adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and additional ASUs issued to clarify the guidance in ASU 2014-09, which amends the existing accounting standards for revenue recognition. The Organization adopted the new revenue standard utilizing the full retrospective method. The Organization did not restate information reported in prior periods as the adoption for the new revenue standard did not have a material impact on previously reported amounts.

**Subsequent Events**

Management of the Organization has evaluated subsequent events for disclosure through the date of the Independent Auditors' Report, the date the financial statements were available to be issued. See Note H.

**NOTE B - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are comprised of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Non-interest bearing checking accounts & petty cash	<u>\$ 33,755</u>	<u>\$ 34,802</u>

TEXAS HEARING AND SERVICE DOGS, INC.  
 dba SERVICE DOGS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2019 AND 2018

**NOTE C - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 145,792	\$ 145,792
Building and building improvements	888,652	868,231
Automobiles	85,096	85,096
Furniture and equipment	71,338	71,338
Computer hardware and software	<u>20,920</u>	<u>20,920</u>
Total property and equipment	1,211,798	1,191,377
Less: accumulated depreciation	<u>(468,595)</u>	<u>(427,917)</u>
Net book value of property and equipment	<u>\$ 743,203</u>	<u>\$ 763,460</u>

For the years ended December 31, 2019 and 2018, depreciation expense totaled \$40,678 and \$39,903, respectively.

**NOTE D - LONG - TERM DEBT AND LINE OF CREDIT**

On May 24, 2017, the Organization entered into a promissory note payable for \$18,940 with a financial institution to purchase a vehicle. The note has an interest rate of 3.45% and is payable in monthly installments of \$344 until maturity on June 5, 2022. The future maturities, under this note, are as follows:

<u>Years ending December 31,</u>	
2020	\$ 3,854
2021	3,989
2022	<u>2,046</u>
	<u>\$ 9,889</u>

On October 23, 2019, the Organization renewed a line of credit which provides up to \$150,000 until maturity on October 23, 2020. Interest accrues on outstanding amounts based on an index determined by the Wall Street Journal prime rate, 5% at December 31, 2019. The line is secured by the land and improvements of the Organization. As of December 31, 2019 and 2018, \$150,000 and \$0 have been drawn on the line of credit, respectively.

TEXAS HEARING AND SERVICE DOGS, INC.  
 dba SERVICE DOGS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2019 AND 2018

**NOTE E - NET ASSETS WITH RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes for the years after December 31:

	2019	2018
Construction of new kennel	\$ 176,700	\$ 189,999

**NOTE F - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits at two financial institutions. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2019 and 2018, these accounts were fully insured by the FDIC.

**NOTE G - AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets at December 31:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 33,755	\$ 34,802
Grants receivable	100,000	200,000
Other receivables	-	23,639
Total financial assets	133,755	258,441
Less amounts not available to be used within one year:		
Revenue deferred beyond next year	9,000	10,000
Net assets with donor restrictions (includes non-current portion of grants receivable)	176,700	189,999
Total amounts not available to be used within one year	185,700	199,999
Financial assets available to meet cash needs for general expenditures within one year	\$ (51,945)	\$ 58,442



TEXAS HEARING AND SERVICE DOGS, INC.  
dba SERVICE DOGS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**NOTE G - AVAILABILITY AND LIQUIDITY - continued**

The Organization manages its liquidity and reserves following three guiding principles: Operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 60 days operating expenses. Although financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019 is a deficit amount, the Organization is taking steps to meet its liquidity policy by cutting costs, proactively working on grants, courting new donors, and revisiting former donors. To achieve these targets, the Organization forecasts its future cash flows and monitors its liquidity monthly, and monitors its reserves annually. In addition, the Organization has a line of credit which provides up to \$150,000 and is available to meet short-term funding requirements.

**NOTE H - SUBSEQUENT EVENTS**

The COVID-19 outbreak and local stay-in-place orders have caused business disruptions throughout the local community. Management does not expect the situation to significantly impact the long-term viability of the Organization. The Organization applied for a Paycheck Protection Program loan made available through the passing of the Cares Act and received \$107,257 in May 2020. The Organization expects a significant portion of it to be forgivable.