

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic
Equestrian Center

Financial Statements

December 31, 2006 and 2005
(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

Board of Directors
SIRE, Inc.:

We have audited the accompanying statements of financial position of SIRE, Inc., d/b/a SIRE-Houston's Therapeutic Equestrian Center (SIRE, Inc.) as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of SIRE, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SIRE, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SIRE, Inc. as of December 31, 2006 and 2005, 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.

Mir & Fox ; Rodriguez

July 24, 2007

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Statements of Financial Position
December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 563,913	224,009
Accounts receivable	27,887	17,526
Grant receivable		25,000
Pledges receivable, net of allowance for doubtful accounts of \$11,500 and \$5,550 for 2006 and 2005, respectively	218,156	103,247
Investments	1,068	1,015
Prepaid expenses	1,000	1,000
Property and equipment, net	<u>717,762</u>	<u>725,484</u>
Total assets	<u>\$ 1,529,786</u>	<u>1,097,281</u>
 <u>Liabilities and Net Assets</u>		
Deferred revenue	<u>9,352</u>	<u>8,576</u>
Net assets:		
Unrestricted	1,286,449	1,063,705
Temporarily restricted	<u>233,985</u>	<u>25,000</u>
Total net assets	<u>1,520,434</u>	<u>1,088,705</u>
Total liabilities and net assets	<u>\$ 1,529,786</u>	<u>1,097,281</u>

See accompanying notes to financial statements.

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	\$ 264,806	254,500	519,306	340,699	25,000	365,699
Tuition	146,507		146,507	131,030		131,030
Special events (net of direct expenses of \$114,202 and \$67,010, respectively)	561,533		561,533	133,805		133,805
Investment income	8,696		8,696	1,470		1,470
Miscellaneous income	18,005		18,005	14,734		14,734
Net assets released from restrictions	45,515	(45,515)	-	12,555	(12,555)	-
Total revenues and other support	<u>1,045,062</u>	<u>208,985</u>	<u>1,254,047</u>	<u>634,293</u>	<u>12,445</u>	<u>646,738</u>
Expenses:						
Programs	623,209		623,209	470,207		470,207
General and administrative	125,449		125,449	82,800		82,800
Fundraising	73,660		73,660	38,905		38,905
Total expenses	<u>822,318</u>	<u>-</u>	<u>822,318</u>	<u>591,912</u>	<u>-</u>	<u>591,912</u>
Changes in net assets	222,744	208,985	431,729	42,381	12,445	54,826
Net assets at beginning of year	<u>1,063,705</u>	<u>25,000</u>	<u>1,088,705</u>	<u>1,021,324</u>	<u>12,555</u>	<u>1,033,879</u>
Net assets at end of year	<u>\$ 1,286,449</u>	<u>233,985</u>	<u>1,520,434</u>	<u>1,063,705</u>	<u>25,000</u>	<u>1,088,705</u>

See accompanying notes to financial statements.

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Statements of Functional Expenses
Years Ended December 31, 2006 and 2005

	2006			2005				
	Programs	General and Administrative	Fundraising	Total	Programs	General and Administrative	Fundraising	Total
Personnel costs:								
Salaries	\$ 362,438	56,559	20,082	439,079	278,555	38,531	11,350	328,436
Payroll taxes, workman's compensation and benefits	45,674	8,931	2,745	57,350	36,621	5,009	1,475	43,105
Total personnel costs	408,112	65,490	22,827	496,429	315,176	43,540	12,825	371,541
Contract labor	10,374	9,968	24,300	44,642	14,139	3,607	23,400	41,146
Occupancy	45,977			45,977	30,444			30,444
Equine	43,259			43,259	29,927			29,927
Depreciation	38,524			38,524	32,582			32,582
Supplies	21,714	3,442	1,325	26,481	4,499	7,866		12,365
Insurance	15,557	246		15,803	12,809	296		13,105
Printing	8,819		1,765	10,584	7,370	309	2,292	9,971
Telephone	8,822			8,822	4,473			4,473
Workshops and training	5,353		23,369	28,722	11,169		295	11,464
Equipment expenses	5,300			5,300	3,666			3,666
Dues and subscriptions	1,852	2,312		4,164		2,463		2,463
Postage	104	2,496	74	2,674	148	2,518	93	2,759
Professional fees		5,400		5,400		5,200		5,200
Technology		13,797		13,797		8,187		8,187
Travel	9,442			9,442	1,243			1,243
Bad debt expense		17,910		17,910		5,800		5,800
Other costs		4,388		4,388	2,562	3,014		5,576
Total expenses	\$ 623,209	125,449	73,660	822,318	470,207	82,800	38,905	591,912

See accompanying notes to financial statements.

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 431,729	54,826
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debt expense	5,950	(1,950)
Depreciation	38,524	32,582
Gift of stock	(53)	(1,015)
Donated property and equipment		(45,000)
Change in operating assets and liabilities:		
Accounts receivable	(10,361)	5,578
Grant receivable	25,000	(25,000)
Pledges receivable	(120,859)	47,461
Prepaid expenses		4,265
Deferred revenue	776	5,104
Net cash provided by operating activities	<u>370,706</u>	<u>76,851</u>
Cash flows from investing activities - purchase of property and equipment	<u>(30,802)</u>	<u>(8,256)</u>
Net increase in cash and cash equivalents	339,904	68,595
Cash and cash equivalents at beginning of year	<u>224,009</u>	<u>155,414</u>
Cash and cash equivalents at end of year	<u>\$ 563,913</u>	<u>224,009</u>

See accompanying notes to financial statements.

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Notes to Financial Statements
December 31, 2006 and 2005

1. Organization and Purpose

SIRE, Inc., d/b/a SIRE-Houston's Therapeutic Equestrian Center (SIRE, Inc.), is a nonprofit corporation incorporated under the laws of the State of Texas in 1985. SIRE, Inc. benefits the physical, emotional, and educational well-being of individuals with disabilities through therapeutic horseback riding and related activities.

SIRE, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting. SIRE, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2006 and 2005, SIRE, Inc. had no permanently restricted net assets.

Contributions

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

Support that is restricted by the donor 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 statements of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

For the purpose of the statement of cash flows, SIRE, Inc. considers all unrestricted highly liquid investments with an initial maturity of three months or less at date of acquisition to be cash equivalents.

Investments

Investments are reported at their fair value based on quoted market prices. Realized and unrealized gains and losses on investments sold or held are reflected in the statement of activities and changes in net assets. Investments donated are recorded at their fair value at the date of donation.

Continued

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Notes to Financial Statements, Continued

Accounts and grant receivables

SIRE, Inc. considers tuition and grant 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 are recorded as revenues in the year that they are received unless they contain a conditional promise to give. Conditional promises to give are recorded as revenue when the conditions on which they depend are substantially met. Pledges due to be collected in more than one year have not been discounted as the present value and net realizable value of the pledge are materially the same. An allowance for uncollectible pledges receivables is recorded based on a combination of write-off history, aging analysis, and any specific, known troubled accounts. At December 31, 2006 and 2005, SIRE Inc. reserved \$11,500 and \$5,550, respectively.

Pledges receivable are due to be collected as follows:

Less than one year	\$ 84,381
One to five years	<u>133,775</u>
Total pledges receivable	\$ <u>218,156</u>

Property and equipment

Property and equipment is stated at cost, if purchased, or fair market value at the date of donation, if donated. SIRE, Inc. capitalizes all expenditures for property and equipment in excess of \$2,500. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets which range from 5 to 40 years. Maintenance and repairs are charged to expense while expenditures for improvements are capitalized.

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. During 2005, SIRE, Inc. received \$45,000 in donated electrical improvements that is recorded as assets and contributions in these financial statements.

A substantial number of volunteers have donated significant amounts of their time in SIRE, Inc.'s program services and its fundraising campaigns. In 2006 and 2005, approximately 30,000 and 28,300 volunteer hours were performed at an estimated value of approximately \$560,000 and \$510,000, respectively. No amounts have been reflected in the statements for these services since the volunteers' time does not meet the criteria under accounting principles generally accepted in the United States of America for revenue recognition.

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SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Notes to Financial Statements, Continued

Deferred revenue

All tuition prior to December 31, 2006 and 2005 and applicable to the 2007 and 2006 spring terms, respectively, has been reported as deferred revenue on the statements of financial position. Payments received in 2006 which relate to 2007 fundraisers have also been reported as deferred revenue on the statements of financial position.

Revenue recognition

Customers are charged based on the nature and amount of the transactions performed by SIRE, Inc. on the customers' behalf. Tuition income and special event income are recognized as revenue when the services or products are provided.

SIRE, Inc. subsidized tuition for all clients. During 2006, 14% of clients received additional reduced tuition from the published tuition.

Fair value of financial instruments

SIRE, Inc.'s financial instruments consist of cash, investments, receivables and payables. Management believes the carrying amounts of these financial instruments approximate their fair value.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts in SIRE, Inc.'s financial statements and accompanying notes. Actual results could differ from the estimates that were used.

3. Property and Equipment

Property and equipment at December 31 consisted of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 237,442	237,442
Buildings and improvements	567,946	561,921
Equipment	163,672	138,895
Horses	<u>11,500</u>	<u>11,500</u>
	980,560	949,758
Less accumulated depreciation	<u>(262,798)</u>	<u>(224,274)</u>
	<u>\$ 717,762</u>	<u>725,484</u>

Continued

SIRE, INC.
d/b/a SIRE-Houston's Therapeutic Equestrian Center

Notes to Financial Statements, Continued

4. Functional Allocation of Expenses

The expenses of providing the various programs and activities have been summarized on a functional basis according to the purpose for which the expenses were paid. Certain expenses which pertain to more than one purpose were allocated among the various functions based upon their estimated use.

5. Temporarily Restricted Net Assets

As of December 31, temporarily restricted net assets consisted of the following:

	<u>2006</u>	<u>2005</u>
Spring site	\$ 200,000	
Periods after December 31	<u>33,985</u>	<u>25,000</u>
	<u>\$ 233,985</u>	<u>25,000</u>

6. Net Assets Released From Restrictions

For the years ended December 31, 2006 and 2005, net assets released for satisfaction of program restrictions amounted to \$45,515 and \$12,555, respectively.

7. Credit Risk

At December 31, 2006, bank balances of cash on deposit at a financial institution were in excess of \$100,000. The amounts in excess of \$100,000 are not insured by the Federal Deposit Insurance Corporation. SIRE, Inc. has not experienced losses of the principal amounts invested.