

SMOKY MOUNTAIN SERVICE DOGS

FINANCIAL STATEMENTS

Year Ended December 31, 2019

SMOKY MOUNTAIN SERVICE DOGS
Loudon, Tennessee
Year Ended December 31, 2019

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7 - 10



Whitlock & Company, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Directors of
Smoky Mountain Service Dogs
Loudon, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Smoky Mountain Service Dogs, (a nonprofit organization) which comprise the statement of financial position as of December 31, 2019, 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 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.

Auditor's 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 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 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. 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 Smoky Mountain Service Dogs, as of December 31, 2019, 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.

Whitlock & Company, P.C.

Alcoa, Tennessee

April 28, 2020

SMOKY MOUNTAIN SERVICE DOGS
Statement of Financial Position
December 31, 2019

ASSETS

Current Assets

Cash	\$ 2,701,020
Prepaid expenses	<u>6,111</u>
	<u>2,707,131</u>

Fixed Assets

Land	60,000
Building	113,154
Improvements	33,982
Equipment	22,921
Vehicles	16,200
Construction in Progress	<u>559,010</u>
	805,267
Less: Accumulated depreciation	<u>(52,281)</u>
Net Fixed Assets	<u>752,986</u>

Total Assets \$ 3,460,117

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	<u>\$ 50,862</u>
------------------	------------------

Net Assets

Without donor restrictions	<u>3,409,255</u>
----------------------------	------------------

Total Liabilities and Net Assets \$ 3,460,117

See accompanying independent auditors' report and notes.

SMOKY MOUNTAIN SERVICE DOGS
Statement of Activities
Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues			
Contributions	\$ 844,000	\$ -	\$ 844,000
Grants and awards	370,872	-	370,872
Application fees	400	-	400
Special events (net of expenses of \$22,569)	100,845	-	100,845
Interest income	7,833	-	7,833
Net assets released from Restriction	<u>468,934</u>	<u>(468,934)</u>	<u>-</u>
 Total Revenues	 <u>1,792,884</u>	 <u>(468,934)</u>	 <u>1,323,950</u>
Expenses			
Program	319,125	-	319,125
General and administration	<u>35,225</u>	<u>-</u>	<u>35,225</u>
 Total Expenses	 <u>354,350</u>	 <u>-</u>	 <u>354,350</u>
 Change in Net Assets	 1,438,534	 (468,934)	 969,600
 Net Assets, Beginning of Year, as previously stated	 <u>1,970,721</u>	 <u>468,934</u>	 <u>2,439,655</u>
 Net Assets, End of Year	 <u>\$ 3,409,255</u>	 <u>\$ -</u>	 <u>\$ 3,409,255</u>

See accompanying independent auditors' report and notes.

SMOKY MOUNTAIN SERVICE DOGS

Statement of Cash Flows Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from donations	\$ 945,245
Cash received from grantors	431,648
Cash received from interest earned	7,833
Cash paid to suppliers and employees	<u>(299,279)</u>
Net Cash Provided by Operating Activities	1,085,447
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(532,574)</u>
Net Increase in Cash and Cash Equivalents	552,873
Cash and Cash Equivalents at Beginning of Year	<u>2,148,147</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,701,020</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities	
Change in net assets	\$ 969,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,451
Changes in current assets and liabilities:	
Accounts receivable	60,776
Prepaid expenses	(1,989)
Accounts payable	<u>42,609</u>
Net Cash Provided by Operating Activities	<u>\$ 1,085,447</u>

See accompanying independent auditors' report and notes.

SMOKY MOUNTAIN SERVICE DOGS
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Program Services</u>		Total Program Services	Management and General	Total Functional Expenses
	<u>Canine Support</u>	<u>Facility Support</u>			
Salaries	\$ 209,417	\$ -	\$ 209,417	\$ -	\$ 209,417
Payroll expenses	16,709	-	16,709	-	16,709
Insurance	4,245	1,268	5,513	856	6,369
Training expenses	3,449	-	3,449	-	3,449
Dog food and supplies	13,814	-	13,814	-	13,814
Veterinary care	20,431	-	20,431	-	20,431
Canine purchase	3,000	-	3,000	-	3,000
Travel expenses	2,581	-	2,581	1,366	3,947
Offsite rental	-	5,500	5,500	-	5,500
Depreciation	-	14,451	14,451	-	14,451
Utilities	-	7,068	7,068	-	7,068
Maintenance and repair	-	6,034	6,034	-	6,034
Kennel supplies	-	6,175	6,175	-	6,175
Apparel/Uniforms	-	-	-	3,926	3,926
Professional services	-	-	-	5,500	5,500
Bank fees	-	-	-	94	94
Dues and registration	-	-	-	5,319	5,319
Office supplies	-	-	-	4,738	4,738
Information Technology	-	-	-	3,527	3,527
Postage	-	-	-	671	671
Miscellaneous	<u>4,962</u>	<u>21</u>	<u>4,983</u>	<u>9,228</u>	<u>14,211</u>
Total	<u>\$ 278,608</u>	<u>\$ 40,517</u>	<u>\$ 319,125</u>	<u>\$ 35,225</u>	<u>\$ 354,350</u>

See accompanying independent auditors' report and notes.

SMOKY MOUNTAIN SERVICE DOGS

Notes to Financial Statements

December 31, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – Smoky Mountain Service Dogs, a non-profit organization established under the laws of the State of Tennessee, is organized to train and provide mobility assistance dogs to disabled veterans.

While it takes approximately two years to train a dog for mobility assistance, Smoky Mountain Service Dogs has matched 35 dogs with veterans since its first placement in 2013. There are currently 21 dogs in various stages of training in the program.

Financial Statement Presentation – The financial statements of the Organization have been prepared on the accrual basis in conformity with generally accepted accounting principles. The statements are presented in accordance with the provisions of Statement of the Financial Accounting Standards Board (FASB) ASU 2016-14, *Financial Statements of Not-for-Profit Entities*. Under ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, with the goal of improving not-for-profit entity (NFP) financial statements to provide more useful information to donors, grantors, and other financial statement users. The ASU requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources.

Contributions – Contributions are recorded as support when cash or other assets are received. Contributions are considered to be available for support without donor restrictions use unless specially restricted by the donor. Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions.

Volunteers – Currently, Smoky Mountain Service Dogs utilizes over 150 volunteers in all aspects of its program including puppy raising, dog fostering, public relations, facilities maintenance, fundraising, client relations, clerical, etc. There are no salaried, administrative staff and only five paid employees, including a Canine Program Manager/Trainer, a Facilities Manager/Trainer, a Lead Trainer, and two Staff Trainers. This allows the organization to maintain a very low percentage of general and administrative expenses.

(Continued)

SMOKY MOUNTAIN SERVICE DOGS

Notes to Financial Statements

December 31, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents – Management considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at December 31, 2019.

Income Tax Status – The organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. Federal Income tax examinations for the years 2016, 2017, and 2018 are still open to examination by the Internal Revenue Service.

Advertising – Advertising expense is recognized as incurred. There were no advertising expenses for the year ended December 31, 2019.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Organization's cash balances are insured (FDIC \$250,000 per financial institution) by various banks. Balances in excess of \$250,000 are at risk and total approximately \$2,200,000 at December 31, 2019.

NOTE 3 – FIXED ASSETS

Fixed Assets are recorded at cost and donated assets are valued at their estimated fair value on the date donated. All assets are depreciated over the assets estimated useful lives using the straight line method of depreciation. Estimated useful lives vary by asset, between 5 – 40 years. Items that do not extend the assets useful life are recorded as repairs and maintenance. Depreciation expense for the year ended December 31, 2019 was \$14,451.

(Continued)

SMOKY MOUNTAIN SERVICE DOGS

Notes to Financial Statements

December 31, 2019

NOTE 3 – FIXED ASSETS (Continued)

Fixed assets at December 31, 2019 are comprised of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 60,000	\$ -	\$ 60,000
Building	113,154	(22,632)	90,522
Improvements	33,982	(2,168)	31,814
Equipment	22,921	(17,221)	5,700
Vehicles	16,200	(10,260)	5,940
CIP	<u>559,010</u>	<u>-</u>	<u>559,010</u>
	<u>\$ 805,267</u>	<u>\$ (52,281)</u>	<u>\$ 752,986</u>

In 2015, Smoky Mountain Service Dogs purchased the 10-acre parcel of land it had previously been leasing. This property, in Lenoir City, Tennessee, includes a small kennel and a caretaker residence. Plans are underway to construct a new, larger kennel including an indoor, veteran/canine training center. A capital campaign has been launched to fund the construction of this facility, which will allow the organization to serve more wounded veterans. Construction in progress related to the new training facility for the year ended December 31, 2019 was \$559,010, with an estimated cost to complete of \$641,000. The new facility is expected to be completed in the Fall of 2020.

NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services, based on management's usage estimates. General overhead expenses are 10% of total expenses for the year ended December 31, 2019.

NOTE 5 – LIQUIDITY

The Organization has \$2,701,020 of financial assets, available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

(Continued)

SMOKY MOUNTAIN SERVICE DOGS

Notes to Financial Statements

December 31, 2019

NOTE 6 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2019, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is April 28, 2020, which is the date on which the financial statements were issued.

In the first quarter of 2020, the Organization invested excess cash in the amount of \$1,800,000 into a brokerage account, primarily investing in mutual funds. Due to market volatility, the value of the investment value declined to approximately \$1,409,000 as of March 31, 2020.