

Consolidated Financial Statements

Gentle Giants
Draft Horse Rescue Society, Ltd.

December 31, 2018

Gentle Giants Draft Horse Rescue Society, Ltd.
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For the Year Ended, December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gentle Giants Draft Horse Rescue Society, Ltd.
Mount Airy, Maryland

We have audited the accompanying consolidated financial statements of Gentle Giants Draft Horse Rescue Society, Ltd. (a Maryland nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gentle Giants Draft Horse Rescue Society, Ltd. as of December 31, 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.

Mathews & Cripe, LLC

October 22, 2019

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Financial Position
December 31, 2018

	<u>2018</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 1,465,915
Accounts receivable	33,290
Inventory	-
Prepaid expenses	<u>22,950</u>
Total current assets	<u>1,522,155</u>
PROPERTY & EQUIPMENT	
Land	3,518,095
Buildings & improvements	1,641,068
Vehicles	161,464
Equipment	<u>270,169</u>
	5,590,796
Less: accumulated depreciation	<u>(604,236)</u>
Net property & equipment	<u>4,986,560</u>
Other assets	<u>100</u>
Total assets	<u><u>\$ 6,508,815</u></u>

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Financial Position
December 31, 2018

<u>LIABILITIES AND NET ASSETS</u>	
	<u>2018</u>
CURRENT LIABILITIES	
Accounts payable & accrued expenses	\$ 138,240
Line of credit	140,470
Current portion of capital leases	13,136
Current portion of long-term debt	<u>92,594</u>
 Total Current Liabilities	 384,440
LONG-TERM LIABILITIES	
Capital leases, less current portion	15,397
Long-term debt, less current portion	<u>2,072,705</u>
 Total Liabilities	 <u>2,472,542</u>
NET ASSETS	
Without donor restrictions	3,529,986
With donor restrictions	-
Non-controlling interest in consolidated subsidiary	<u>506,287</u>
 Total Net Assets	 <u>4,036,273</u>
 Total Liabilities and Net Assets	 <u><u>\$ 6,508,815</u></u>

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Activities & Changes in Net Assets
For the Year Ended, December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT			
Donations:			
Cash	\$ 3,591,509	\$ -	\$ 3,591,509
Bequests	1,029,415	-	1,029,415
Sponsorships	128,377	-	128,377
	<u>4,749,301</u>	<u>-</u>	<u>4,749,301</u>
REVENUE			
Boarding & adoption fees	226,772	-	226,772
Merchandise sales (net)	5,536	-	5,536
Interest & misc.	33,860	-	33,860
	<u>266,168</u>	<u>-</u>	<u>266,168</u>
Total support and net revenue	<u>5,015,469</u>	<u>-</u>	<u>5,015,469</u>
EXPENSES			
Program services	3,123,631	-	3,123,631
Support Services			
Management	257,843	-	257,843
Fundraising	929,214	-	929,214
Total expenses	<u>4,310,688</u>	<u>-</u>	<u>4,310,688</u>
Changes in Net Assets			
Before Non-controlling Interest	704,781	-	704,781
Non-controlling interest of			
Subsidiary's Loss	<u>34,036</u>	<u>-</u>	<u>34,036</u>
Change in Net Assets	738,817	-	738,817
Net assets - beginning of year	<u>2,791,169</u>	<u>-</u>	<u>2,791,169</u>
Net assets - end of year	<u>\$ 3,529,986</u>	<u>\$ -</u>	<u>\$ 3,529,986</u>

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Functional Expenses
For the Year Ended, December 31, 2018

	Program Services		Support Services		Total
	Horse Rescue & Care	Management	Fundraising		
Advertising	\$ -	\$ 5,529	\$ -	\$ 5,529	
Agency fee	178,781	3,521	162,915	345,217	
Auto & truck	27,662	-	-	27,662	
Back-end premiums	15,448	304	14,077	29,829	
Bank & finance charges	-	11,917	-	11,917	
Boarding	7,780	-	-	7,780	
Computer services	38,222	11,487	34,830	84,539	
Contract services	5,784	-	-	5,784	
Depreciation	113,266	-	-	113,266	
Donations	-	1,000	-	1,000	
Dues & registration	-	2,780	-	2,780	
Equipment expense	32,780	-	-	32,780	
Farm & barn supplies	129,360	-	-	129,360	
Farrier	122,880	-	-	122,880	
Feed, grain, hay & supplements	229,662	-	-	229,662	
Front-end premiums	264	5	241	510	
Fulfillment	12,235	241	11,149	23,625	
Horse rescue	19,085	-	-	19,085	
Insurance	143,820	25,861	-	169,681	
Legal & accounting	-	23,483	5,577	29,060	
Mail list management	42,534	838	38,760	82,132	
Mailhouse laser	75,028	1,478	68,369	144,875	
Miscellaneous	26,562	3,157	149,263	178,982	
Occupancy	213,516	4,130	-	217,646	
Office supplies & expense	-	10,410	-	10,410	
Postage & shipping	299,234	5,784	267,610	572,628	
Printing & production costs	194,251	3,813	176,423	374,487	
Repairs & maintenance	9,456	-	-	9,456	
Salaries & wages	739,514	124,541	-	864,055	
Tack & tack supplies	16,088	-	-	16,088	
Taxes	55,617	9,693	-	65,310	
Training	30,351	-	-	30,351	
Travel, meals & lodging	36,225	7,871	-	44,096	
Veterinary care	246,814	-	-	246,814	
Waste disposal	61,412	-	-	61,412	
Total Functional Expenses	\$ 3,123,631	\$ 257,843	\$ 929,214	\$ 4,310,688	

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Cash Flows
For the Year Ended, December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 738,817
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation	113,266
(Gain) loss on asset disposal	(24,000)
Equity losses from subsidiary	(97,545)
Net Change in:	
Accounts receivable	(16,449)
Prepaid expenses	(8,737)
Inventory	48
Stable deposit	5,000
Accounts payable and accrued expenses	(20,528)
Boarder deposits	1,219
	<u>(47,726)</u>
Net Cash Provided (Used) by Operating Activities	<u>691,092</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property & equipment	24,000
Purchases of property & equipment	<u>(305,158)</u>
Net Cash Provided (Used) by Investing Activities	<u>(281,158)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowing on line of credit	70,061
Payments on capital leases	(30,572)
Payments on long-term debt	<u>(93,235)</u>
Net Cash Provided (Used) by Financing Activities	<u>(53,746)</u>
NET INCREASE (DECREASE) IN CASH	356,188
CASH AT BEGINNING OF YEAR	<u>1,109,728</u>
CASH AT END OF YEAR	<u><u>\$ 1,465,915</u></u>

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statement of Cash Flows
For the Year Ended, December 31, 2018

SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS

Acquisition of property & equipment	\$ 407,014
Less: loans used to acquire property & equipment	<u>(101,856)</u>
Cash Used for Acquisition of Property & Equipment	<u>\$ 305,158</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for:	
Interest	<u>\$ 88,232</u>

See independent auditor's report and notes to the consolidated financial statements.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

Gentle Giants Draft Horse Rescue Society, Ltd. (the Organization) is a Maryland-based non-profit organization, founded in 2005, and is dedicated to the rescue, shelter, feeding, training and rehabilitation of horses that are homeless, abandoned by their owners, at risk of needless slaughter, or are victim of inhumane care and abuse. Horses that are rescued from slaughter or that can be rehabilitated are found new, permanent adoptive homes. The Organization's main support is from donations from the general public and direct-mail donor contributions.

In 2017, the Organization received as a gift, 182 shares of Southdown Community, Inc., (the Corporation) a Virginia-based s-corporation that operates horse stables. The gift resulted in the Organization owning 54% of the outstanding shares of the Corporation. The assets, liabilities, and income and expense items of the Corporation have been consolidated in these financial statements, as required by generally accepted accounting principles.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Organization and its majority-owned subsidiary, Southdown Community, Inc., and are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*. All significant intercompany accounts, transactions, and profits have been eliminated in consolidation.

CONTRIBUTIONS

Contributions received are recorded as with, or without donor restrictions depending on the nature and existence of donor restrictions.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable are presented net of the allowance for doubtful accounts of \$-0- at December 31, 2018. Management's periodic evaluation of the adequacy of the allowance is based on the Corporation's past loss experience. Accounts receivable are charged off when they are 180 days past due.

PROPERTY AND EQUIPMENT

Property and equipment are capitalized when the total purchase price exceeds \$500 and are carried at cost, less accumulated depreciation. Depreciation is provided using the straight-line

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT (continued)

method based upon the estimated useful lives of the asset. Furniture, fixtures, equipment and vehicles are depreciated over 5-7 years. Buildings and leasehold improvements are depreciated using the straight-line method over 39 years.

INCOME TAXES

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization's forms 990, *Return of Organization Exempt from Income Tax*, for the years 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed.

COSTS OF JOINT ACTIVITIES

FASB ASC 958-720-50-2, "*Accounting for Costs of Activities That Include Fund Raising*", establishes accounting standards for recording costs associated with joint activities (activities which are part fundraising and have elements of one or more other functions, such as program or general and administrative). The pronouncement requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the year ended, December 31, 2018, was \$5,529.

ESTIMATES

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

COMPENSATED ABSENCES

Vacation, personal, and sick pay are considered expenditures in the year paid, and do not carry over from year to year. Therefore, there are no accrued liabilities for compensated absences.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

B. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	<u>2018</u>
Financial assets at year-end	\$ <u>1,465,915</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>1,465,915</u></u>

C. ALLOCATION OF JOINT ACTIVITIES

During the year ended, December 31, 2018, the Organization incurred joint costs of approximately \$1,959,498, for officer and administrative salaries, legal fees, printing, postage and related costs primarily related to fundraising appeals. Pursuant to FASB ASC 958-720-50-2, these costs were allocated to the functional areas as follows:

	<u>2018</u>
Program Services	\$ 965,457
Fund Raising	814,525
Management	<u>179,516</u>
	<u>\$ 1,959,498</u>

D. CONTINGENCY

The Organization maintains cash balances at various financial institutions. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor per insured financial institution. Amounts in excess of insured limits at December 31, 2018, was \$929,638. Management believes the Organization is not subject to any significant credit risk on cash and cash equivalents.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

E. CAPITAL LEASES

The Organization entered into a capital lease agreement for the purchase of an all-terrain vehicle. The lease began in January 2018 and requires 36 equal monthly payments of \$208. Upon termination, ownership transfers to the Organization with a \$1 payment.

The Organization entered into a capital lease agreement for the purchase of a loader. The lease began in 2016 and requires 60 equal monthly payments of \$961. Upon termination, ownership transfers to the Organization with a \$1 payment.

Future minimum lease payments required under these leases are as follows:

2019	\$ 14,028
2020	13,679
2021	2,129
	<u>29,836</u>
Less amount representing interest	1,303
Present value of minimum lease payments	<u>28,533</u>
Less: current portion	<u>13,136</u>
	<u><u>\$ 15,397</u></u>

F. NON-CONTROLLING INTEREST IN S-CORPORATION

The Organization has reflected a non-controlling interest for the portion of the Organization's assets, liabilities, revenue, and expenses not controlled by the Organization, separately in the consolidated statement of financial position and the consolidated statement of activities and changes in net assets. Below is a reconciliation of the change in net assets:

	<u>Controlling</u>	<u>Non- Controlling</u>
Net assets as of January 1, 2018	\$ 2,791,169	\$ 540,323
Change in net assets	<u>738,817</u>	<u>(34,036)</u>
Net assets as of December 31, 2018	<u><u>\$ 3,529,986</u></u>	<u><u>\$ 506,287</u></u>

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

G. LINE OF CREDIT

The Corporation has a \$150,000 bank line of credit available for general operating purposes. The line is payable upon demand with interest payable at 1% over prime (6.5% at December 31, 2018). There are no significant restrictive provisions in the agreement. The balance was \$140,470 at December 31, 2018. The line matures February 20, 2019.

H. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>
Note payable to Columbia Bank in \$7,797 monthly installments including interest at 4.60%; secured by real property; matures March 2037	\$ 1,157,872
Note payable to Columba Bank in \$6,649 monthly installments including interest at 3.95%; secured by real property; matures March 2035	962,100
Note payable to AGCO Finance in \$566 monthly installments including imputed interest at 3.00%; secured by equipment; matures November 2025	42,344
Note payable to Sheffield Financial in \$100 monthly installments including interest at 0%; secured by equipment; matures June 2021	<u>2,983</u>
	2,165,299
Less: current portion	<u>92,594</u>
	<u>\$ 2,072,705</u>

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Year ended, December 31, 2018

H. LONG-TERM DEBT (continued)

At December 31, 2018, the five-year maturities are as follows:

2019	\$ 92,594
2020	93,439
2021	97,433
2022	101,599
2023 and thereafter	<u>1,780,235</u>
	<u>\$ 2,165,299</u>

I. CONCENTRATIONS

Approximately 62% of the Organization's revenue is derived from the fundraising efforts of a professional fundraising company. In the event the professional fundraiser no longer performed services for the Organization, the current level of the Organization's operations and services would be negatively impacted. At December 31, 2018, there is no provision in the financial statements for such an event as a reasonable estimate cannot be made and no losses are anticipated.

J. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 22, 2019, the date which the financial statements were available to be issued.