

Consolidated Financial Statements

Gentle Giants
Draft Horse Rescue Society, Ltd.

December 31, 2019

Gentle Giants Draft Horse Rescue Society, Ltd.
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For the Years Ended, December 31, 2019 and 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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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, 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.

Mathews & Cripe, LLC

July 31, 2020

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 1,121,053	\$ 1,465,915
Marketable securities	29,872	-
Accounts receivable	29,686	33,290
Inventory	514	-
Prepaid expenses	<u>92,426</u>	<u>22,950</u>
Total current assets	<u>1,273,551</u>	<u>1,522,155</u>
PROPERTY & EQUIPMENT		
Land	4,230,268	3,518,095
Buildings & improvements	1,805,133	1,641,068
Vehicles	220,759	161,464
Equipment	<u>278,767</u>	<u>270,169</u>
	6,534,927	5,590,796
Less: accumulated depreciation	<u>(743,461)</u>	<u>(604,236)</u>
Net property & equipment	<u>5,791,466</u>	<u>4,986,560</u>
Other assets	<u>100</u>	<u>100</u>
Total assets	<u>\$ 7,065,117</u>	<u>\$ 6,508,815</u>

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

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statements of Financial Position
December 31, 2019 and 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable & accrued expenses	\$ 294,890	\$ 138,240
Line of credit	140,470	140,470
Current portion of capital leases	20,297	13,136
Current portion of long-term debt	<u>115,905</u>	<u>92,594</u>
Total Current Liabilities	571,562	384,441
LONG-TERM LIABILITIES		
Capital leases, less current portion	44,256	15,397
Long-term debt, less current portion	<u>2,651,583</u>	<u>2,072,705</u>
Total Liabilities	<u>3,267,401</u>	<u>2,472,543</u>
NET ASSETS		
Without donor restrictions	3,615,657	3,529,986
With donor restrictions	-	-
Non-controlling interest in consolidated subsidiary	<u>182,059</u>	<u>506,287</u>
Total Net Assets	<u>3,797,716</u>	<u>4,036,273</u>
Total Liabilities and Net Assets	<u>\$ 7,065,117</u>	<u>\$ 6,508,815</u>

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

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statements of Activities & Changes in Net Assets
For the Year Ended, December 31, 2019 with Comparative
Totals for the Year Ended, December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total	2018
PUBLIC SUPPORT				
Donations:				
Cash	\$ 4,021,600	\$ -	\$ 4,021,600	\$ 3,591,509
Bequests	28,953	-	28,953	1,029,415
Sponsorships	122,007	-	122,007	128,377
	<u>4,172,561</u>	<u>-</u>	<u>4,172,561</u>	<u>4,749,301</u>
REVENUE				
Boarding & adoption fees	281,047	-	281,047	226,772
Merchandise sales (net)	(1,665)	-	(1,665)	5,536
Interest & misc.	35,642	-	35,642	33,860
	<u>315,024</u>	<u>-</u>	<u>315,024</u>	<u>266,168</u>
Total support and net revenue	<u>4,487,585</u>	<u>-</u>	<u>4,487,585</u>	<u>5,015,469</u>
EXPENSES				
Program services	3,419,870	-	3,419,870	3,126,479
Support Services				
Management	272,767	-	272,767	254,996
Fundraising	739,108	-	739,108	929,214
Total expenses	<u>4,431,746</u>	<u>-</u>	<u>4,431,746</u>	<u>4,310,688</u>
Changes in Net Assets				
Before Non-controlling Interest	55,840	-	55,840	704,781
Non-controlling interest of				
Subsidiary's Loss	<u>29,831</u>	<u>-</u>	<u>29,831</u>	<u>34,036</u>
Change in Net Assets	85,671	-	85,671	738,817
Net assets - beginning of year	<u>3,529,986</u>	<u>-</u>	<u>3,529,986</u>	<u>2,791,169</u>
Net assets - end of year	<u>\$ 3,615,657</u>	<u>\$ -</u>	<u>\$ 3,615,657</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, 2019 with Comparative
Totals for the Year Ended, December 31, 2018

	Program Services		Support Services		Total	2018
	Horse Rescue & Care	Management	Fundraising			
Advertising	\$ -	\$ 8,002	\$ -	\$ 8,002	\$ 5,529	
Agency fee	162,970	3,568	153,174	319,713	345,217	
Auto & truck	18,805	-	-	18,805	27,662	
Back-end premiums	14,220	311	13,365	27,896	29,829	
Bank & finance charges	-	18,798	-	18,798	11,917	
Boarding	4,574	-	-	4,574	7,780	
Computer services	32,186	3,108	30,252	65,547	84,539	
Contract services	22,346	-	-	22,346	32,081	
Depreciation	147,562	-	-	147,562	113,266	
Donations	-	3,535	-	3,535	1,000	
Dues & registration	-	6,804	-	6,804	2,780	
Equipment expense	-	-	-	-	32,780	
Farm & barn supplies	147,857	-	-	147,857	129,360	
Farrier	97,545	-	-	97,545	122,880	
Feed, grain, hay & supplements	322,736	-	-	322,736	229,662	
Front-end premiums	-	-	-	-	510	
Fulfillment	11,591	254	10,894	22,738	23,625	
Horse rescue	29,688	-	-	29,688	19,085	
Insurance	42,625	32,039	-	74,664	169,681	
Legal & accounting	-	25,671	6,235	31,906	29,060	
Mail list management	33,775	739	31,745	66,259	82,132	
Mailhouse laser	64,097	1,403	60,244	125,744	144,875	
Miscellaneous	30,655	335	14,412	45,401	178,982	
Occupancy	295,033	13,361	-	308,394	217,646	
Office supplies & expense	-	18,432	-	18,432	10,410	
Postage & shipping	267,949	5,748	246,778	520,476	572,628	
Printing & production costs	183,064	4,007	172,009	359,081	374,487	
Repairs & maintenance	93,645	-	-	93,645	9,456	
Salaries & wages	906,441	97,159	-	1,003,600	864,055	
Tack & tack supplies	14,841	-	-	14,841	16,088	
Taxes	57,018	7,527	-	64,545	65,310	
Training	6,565	-	-	6,565	4,054	
Travel, meals & lodging	34,687	21,967	-	56,654	44,096	
Veterinary care	306,616	-	-	306,616	246,814	
Waste disposal	70,778	-	-	70,778	61,412	
Total Functional Expenses	\$ 3,419,870	\$ 272,767	\$ 739,108	\$ 4,431,746	\$ 4,310,688	

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

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statements of Cash Flows
For the Years Ended, December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 85,672	\$ 738,817
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	147,562	113,266
(Gain) loss on asset disposal	-	(24,000)
Equity losses from subsidiary	(47,162)	(97,545)
Net Change in:		
Accounts receivable	2,954	(16,449)
Employee advances	650	-
Prepaid expenses	(69,476)	(8,737)
Inventory	(514)	48
Stable deposit	-	5,000
Accounts payable and accrued expenses	152,451	(20,528)
Boarder deposits	4,200	1,219
Total adjustments	190,665	(47,726)
Net Cash Provided (Used) by Operating Activities	276,337	691,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property & equipment	-	24,000
Purchase of marketable securities	(29,872)	-
Purchase of Southdown Community stock	(270,000)	-
Purchases of property & equipment	(204,534)	(305,158)
Net Cash Provided (Used) by Investing Activities	(504,406)	(281,158)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit	-	70,061
Payments on capital leases	(18,981)	(30,572)
Payments on long-term debt	(97,811)	(93,235)
Net Cash Provided (Used) by Financing Activities	(116,792)	(53,746)
NET INCREASE (DECREASE) IN CASH	(344,861)	356,188

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

Gentle Giants Draft Horse Rescue Society, Ltd.
Consolidated Statements of Cash Flows
For the Years Ended, December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH AT BEGINNING OF YEAR	<u>1,465,915</u>	<u>1,109,728</u>
CASH AT END OF YEAR	<u>\$ 1,121,053</u>	<u>\$ 1,465,915</u>

SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS

Acquisition of property & equipment	\$ 959,534	\$ 407,014
Less: loans used to acquire property & equipment	<u>(755,000)</u>	<u>(101,856)</u>
Cash Used for Acquisition of Property & Equipment	<u>\$ 204,534</u>	<u>\$ 305,158</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for:		
Interest	<u>\$ 109,543</u>	<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 Years ended, December 31, 2019 and 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. In 2019, the Organization purchased 78 shares from the Corporation's shareholders. These transactions resulted in the Organization owning 76.9%% 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.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended, December 31, 2018, from which summarized information was derived.

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.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTS RECEIVABLE

Accounts receivable are presented net of the allowance for doubtful accounts of \$-0- at December 31, 2019 and 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.

INVENTORY

Inventory consists of donor gifts and is carried at cost using the first-in, first-out method (FIFO) method.

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 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 2016, 2017 and 2018 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 years ended, December 31, 2019 and 2018, was \$8,002 and \$5,529, respectively.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

MARKETABLE SECURITIES

The Organization classifies its securities as available for sale and they are carried at fair value. Fair values are generally based upon quoted market prices. Gains and losses are included in earnings.

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>2019</u>
Financial assets at year-end	<u>\$ 1,121,053</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,121,053</u>

C. 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, 2019, was \$300,549. 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 Years ended, December 31, 2019 and 2018

D. ALLOCATION OF JOINT ACTIVITIES

During the year ended, December 31, 2019, the Organization incurred joint costs of approximately \$1,749,189, 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>2019</u>
Program Services	\$ 888,179
Fund Raising	739,108
Management	<u>121,902</u>
	<u>\$ 1,749,189</u>

E. CONCENTRATIONS

Approximately 68% 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, 2019, there is no provision in the financial statements for such an event as a reasonable estimate cannot be made and no losses are anticipated.

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, 2019	\$ 3,529,986	\$ 506,287
Change in net assets	<u>85,671</u>	<u>(324,228)</u>
Net assets as of December 31, 2019	<u>\$ 3,615,657</u>	<u>\$ 182,059</u>

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

G. 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.

The Organization entered into a capital lease agreement for the purchase of a truck. The lease began in 2019 and requires 84 equal monthly payments of \$788. Upon termination, ownership transfers to the Organization with a \$1 payment.

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

2020	\$ 23,271
2021	11,449
2022	9,451
2023	9,451
2024 and thereafter	20,478
	<u>74,100</u>
Less amount representing interest	9,547
Present value of minimum lease payments	<u>64,553</u>
Less: current portion	<u>20,297</u>
	<u>\$ 44,256</u>

H. 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, 2019). There are no significant restrictive provisions in the agreement. The balance was \$140,470 at December 31, 2019 and 2018, respectively. The line matures February 20, 2020.

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

I. MARKETABLE SECURITIES

At December 31, 2019 and 2018, marketable securities consist of:

	<u>2019</u>	<u>2018</u>
Corporate stocks, at cost	\$ 28,953	\$ -
Unrealized gains	919	-
Unrealized losses	<u>-</u>	<u>-</u>
Total marketable securities at fair value	<u>\$ 29,872</u>	<u>\$ -</u>

J. FAIR VALUE MEASUREMENTS

Accounting standards define fair value as an exit price, establish a framework for measuring fair value within generally accepted accounting principles and expand disclosures about fair value measurements.

Fair value is an exit price, which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering such assumptions, there is a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 inputs: quoted market prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs: observable inputs including Level 1 prices that have been adjusted for differences in local markets; quoted prices for similar assets and liabilities; and other inputs corroborated by observable market data.
- Level 3 inputs: unobservable inputs (e.g., a company's own data)

The following table presents the Organization's assets measured at fair value on a recurring basis at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Marketable securities	<u>\$ 29,872</u>	<u>\$ -</u>	<u>\$ -</u>

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

K. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Note payable to Fulton Bank in \$7,797 monthly installments including interest at 4.60%; secured by real property; matures March 2037	\$ 1,117,456	\$ 1,157,872
Note payable to Fulton Bank in \$6,649 monthly installments including interest at 3.95%; secured by real property; matures March 2035	920,083	962,100
Note payable to the Fleming Trust in \$4,620 monthly installments including interest at 5.00%; secured by real property; matures August 2039	691,414	-
Note payable to AGCO Finance in \$566 monthly installments including imputed interest at 3.00%; secured by equipment; matures November 2025	36,751	42,344
Note payable to Sheffield Financial in \$100 monthly installments including interest at 0%; secured by equipment; matures June 2021	1,784	2,984
	<u>2,767,488</u>	<u>2,165,300</u>
Less: current portion	<u>115,905</u>	<u>92,594</u>
	<u>\$ 2,651,583</u>	<u>\$ 2,072,706</u>

Gentle Giants Draft Horse Rescue Society, Ltd.
Notes to Consolidated Financial Statements
For the Years ended, December 31, 2019 and 2018

K. LONG-TERM DEBT (continued)

At December 31, 2019, the five-year maturities are as follows:

2020	\$ 115,905
2021	120,370
2022	125,096
2023	130,645
2024 and thereafter	<u>2,275,472</u>
	<u>\$ 2,767,488</u>

L. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 31, 2020, the date which the financial statements were available to be issued.