HABITAT FOR HORSES, INC

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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Crayton & Vilt, PLLC
Certified Public Accountants

Philip Levin, CPA
Consultant

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Habitat for Horses, Inc.

We have audited the accompanying financial statements of Habitat for Horses, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 from 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 Habitat for Horses, Inc. as of December 31, 2016, 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.

Crayton & Vilt, PLLC

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Stafford, Texas
March 22, 2016

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HABITAT FOR HORSES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

Assets	
Cash and cash equivalents	$ 184,589
Investments	489,387
Inventory	1,055
Total current assets	675,031
Capital assets, net of accumulated depreciation	2,456,716
Other assets, net	56,569
TOTAL ASSETS	$ 3,188,316

LIABILITIES AND NET ASSETS

LIABILITIES	
Current liabilities	
Accounts payable	$ 126,071
Current portion of long-term liabilities	54,637
Total current liabilities	180,708
Long-term liabilities	
Note payables, net	381,060
Total liabilities	561,768
UNRESTRICTED NET ASSETS	2,626,548
TOTAL LIABILITIES AND NET ASSETS	$ 3,188,316

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

HABITAT FOR HORSES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted
Revenue, gains and other support	
Contributions	$ 1,371,397
Contributions in-kind	14,069
Adoption fees	34,750
Membership fees	1,145
Merchandise sales	1,812
Local and private grants	22,000
Investment income	48,427
Other revenues	16,837
Total revenue, gains and other support	1,510,437
Expenses	
Community program services	1,759,330
Supporting services	97,019
Fundraising	168,673
Total expenses	2,025,022
Change in net assets	(514,585)
Net assets, beginning of year	3,141,133
Net assets, end of year	$ 2,626,548

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

HABITAT FOR HORSES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Community Program Services	Supporting Services	Fundraising	Total
Personnel expenses	$ 469,353	$ 36,505	$ 15,645	$ 521,503
Other expenses				
Bank charges	12,868			12,868
Computer expenses	25,254			25,254
Depreciation	79,574			79,574
Education	121,252			121,252
Horse expenses	397,551			397,551
Insurance	51,609			51,609
Interest expense		17,847		17,847
Investment expenses & losses	31,992	36,211		68,203
Licenses and other expenses			10,758	10,758
Merchandise for resale			715	715
Miscellaneous expenses		1,438		1,438
Professional fees	15,364		52,907	68,271
Ranch expenses	56,440			56,440
Repairs & maintenance	19,262	875		20,137
Supplies and postage	380,704	4,143	88,648	473,495
Telephone & internet	4,552			4,552
Travel, meals & entertainment	3,809			3,809
Utilities	3,648			3,648
Veternarian expenses	68,098			68,098
Volunteer expenses	18,000			18,000
Total other expenses	1,289,976	60,514	153,028	1,503,519
Total expenses	$ 1,759,330	$ 97,019	$ 168,673	$ 2,025,022

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

HABITAT FOR HORSES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Change in net assets	$ (514,585)
Adjustments to reconcile decrease in net assets to net cash (used in) operating activities:	
Depreciation and amortization	79,574
Changes in operating assets and liabilities:	
Inventory	5,137
Escrow	(617)
Deposits	(254)
Employee loan	1,511
Licenses	(2,220)
Other assets	(2,166)
Accounts payable	(8,096)
Accrued expenses	(10,673)
Net cash provided by operating activities	(452,389)
Cash flows from investing activities	
Purchases of trading securities	(95,450)
Proceeds from sale of trading securities	203,099
Purchases of capital assets	(129,177)
Retirement of capital assets	42,892
Net provided by investing activities	21,364
Cash flows for financing activities	
Loans to purchase assets	81,122
Payments on notes payable	(128,777)
Net cash used for financing activities	(47,655)
Net decrease in cash and cash equivalents	(478,680)
Cash and cash equivalents, beginning of year	663,269
Cash and cash equivalents, end of year	$ 184,589
Supplemental Disclosures	
Interest paid	$ 17,847
Income tax paid	$ 4,736

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

NOTE 1 - ORGANIZATION

Habitat For Horses, Inc. (the Organization) is a not-for-profit organization incorporated in the State of Texas in 1998 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is governed by a nine-member Board of Directors. The Board of Directors is selected pursuant to the bylaws of the Organization, and they significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

The Organization's mission is to promote the safety, well being, and health of horses. In addition, the Organization provides a home for those horses that are no longer able to be productive. Physicians are hired to restore to health horses that have been ill or mistreated by prior owners upon being brought into the safe environment of this Organization. Many of these horses are then adopted and transferred to a safe environment. There are several areas of support provided by the Organization – a full service medical and surgical facility that provides emergency care and classes on the basics of horse care for volunteers and those that are considering adoption or fostering a horse.

Horses are being slaughtered by the thousands so that their meat can be served overseas in restaurants as a delicacy. These are healthy horses, and Habitat For Horses, Inc. is making every effort to halt this procedure throughout the country. In addition, the Organization is actively campaigning to eradicate other forms of horse abuse initiated by federal agencies.

In 2014, the Organization received approximately $2.8 million from the dissolution of Happy Trails for Old Tails, Inc., a 501 (c)(3) entity. With these funds, a ranch was acquired in 2015 that is being used to care for additional horses.

The Organization is supported primarily through private and corporate contributions, membership fees, and revenue from adoptions.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Contributions and Net Asset Classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

> Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
>
> Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
>
> Permanently restricted net assets include contributions that donors have restricted in perpetuity. The income from such gifts may be used to support the specified purpose.

Revenues are reported as increases in unrestricted net assets, and expenses are reported as decreases in unrestricted net assets. Amounts are transferred from temporarily restricted net assets to unrestricted net assets as soon as the donor imposed restrictions are removed.

Cash and Cash Equivalents – For purposes of the statement of cash flows, Habitat For Horses, Inc. considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash is held in both interest bearing and non-interest bearing demand accounts.

Pledges Receivable – Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets and are recorded as a component of investment income.

Property and Equipment - Property and equipment purchased by Habitat For Horses, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of $2,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of 25 years for buildings and 5 – 7 years for equipment, vehicles, and furniture. Gains or losses on retired or sold property and equipment are reflected in the change in net assets for the period. The proceeds from such sales that are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Public Support and Revenue - Financial ASC 958-605-25-2 and 958-605-30-2 (formerly SFAS No. 116) generally require measuring contributions received at the fair value of the assets or services received or promised, or the fair value of the liabilities satisfied. Contributions are recognized as revenues or gains in the period they are received, even if the donor has restricted their use and the restriction will be met in a future reporting period; that is, none are deferred. As a result, contributions are recorded immediately either as an increase in unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets, depending on the nature of the donor restrictions, if any.

Restricted Support - After determining that support should be recorded in the financial statements, the Organization must determine whether the donor has restricted its use in some manner or to some time period. For example, a donor may specify that a gift be used for the operation of a particular program, the acquisition of property or equipment, or an endowment, whereby only income generated by the gift may be used for operating purposes. Restrictions may be explicit (such as a letter specifying that the contribution be used for medications to treat injured horses) or implicit (such as gifts received in a capital improvements drive or in an appeal for a particular program).

Temporary and Permanent Restrictions - Generally, a restriction is temporary if the Organization is authorized to deplete what was donated, such as contributions restricted to purchase assets or to fund program costs; otherwise, it is permanent. Permanent restrictions are those that permanently restrict the Organization's use of contributed assets (such as an endowment under which the principal must remain intact). Sometimes an endowment instrument temporarily restricts the use of the income from the principal, such as an endowment to the Organization requiring the income to be used to fund the compensation of a caretaker. Another example of a permanent restriction is land donated for the Organization's permanent use.

A temporarily restricted contribution generally is recognized when received and is reclassified from temporarily restricted net assets to unrestricted net assets when the donor's restriction is satisfied or when the stipulated time has elapsed. Cash received to support the activities of a particular program would be reported as contribution revenue, increasing temporarily restricted net assets. When expenditures for the program are incurred, the financial statements would report a reduction in temporarily restricted net assets and an increase in unrestricted net assets.

Unrestricted support contributions not restricted by time or manner of use are recognized as unrestricted support in the period in which they are received (or the promise is made). However, if a donor has stipulated that funds are to be used in a subsequent period, the contribution is considered restricted. Unconditional promises to give contributions to be received in future periods are assumed to be temporarily restricted unless the donor explicitly states that the contribution is to support the current period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions Whose Restrictions Are Met in the Same Year - Restricted contributions may be reported as unrestricted support if (a) the restrictions are met in the same reporting period, (b) that policy is followed consistently, (c) the policy is disclosed, and (d) the organization has a similar policy for accounting for restricted investment income and gains. For example, an Organization may receive a $50,000 contribution to fund the cost of a one-week educational seminar. If the $50,000 is received in the same year the seminar is held, the donation can be reflected as an unrestricted contribution in the statement of activities provided the organization meets the criteria in this paragraph. If the educational seminar straddled the organization's year end and restrictions on only $25,000 of the donation were met, the statement of activities could reflect unrestricted contributions of $25,000 and temporarily restricted contributions of $25,000.

Designations Imposed Internally - Sometimes, the Board of Directors may designate a portion of unrestricted net assets for a specific purpose as a management planning tool. For example, the Board of Directors may designate a certain amount of current year contributions to be used to fund future roof repairs. Those Board designations are not restrictions because the designations may be reversed by the Board, and they do not alter the nature of unrestricted contributions.

Federal Income Taxes – Habitat For Horses, Inc. is exempt from federal income tax under Internal Revenue Code IRC Section 501(c)(3) and is classified as a public charity under IRC Sections 509(a)(1) and 170(b)(1)(A)(i).

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.

Functional Expense Allocation – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications on the basis of square footage of office space occupied, salaries, time sheets, and other methods determined by management.

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT.)

In August 2016, the FASB issued a new accounting pronouncement regarding reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017, with early application permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

NOTE 3 – INVESTMENTS (Trading Securities)

Investments as of December 31, 2016 are as follows:

	Fair Value
Bond mutual funds	$163,668
Equities	26,885
Other assets	298,834
Total	$489,387

See also NOTE 9

NOTE 4 – OTHER ASSETS

Other assets at December 31, 2016 are as follows:

Escrow funds	$42,780
Other	6,569
Licenses	7,220
Total	$56,569

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives.

Maintenance and repair costs are charged to expenses as incurred and improvements are capitalized.

NOTE 5- PROPERTY AND EQUIPMENT (continued)

Property and equipment at December 31, 2016 are as follows:

Land	$1,912,518
Hay equipment	287,897
Computer equipment	3,405
Ranch equipment	142,113
Buildings and improvements	375,631
Medical equipment	32,544
Vehicles	48,684
Machinery	31,310
Total	2,834,102
Accumulated Depreciation	377,386
Net	$2,456,716

NOTE 6 – NOTES PAYABLE

The Organization's obligations under notes payable consist of the following at December 31, 2016:

Note payable to John Deere Financial. The note is dated December 16, 2013, has a 0% interest rate, and has a face amount of $101,168. Secured by equipment and machinery.	$25,292
Date of maturity is December 16, 2017.	
Note payable to Prosperity Bank. The note is dated March 17, 2016, has a 4.25% interest rate, and has a face amount of $82,500. Secured by Terrebond Rd property.	78,489
Date of maturity is March 17, 2031.	
Unsecured note payable to Synchrony Bank. The note is dated May 13, 2016, has a 0.00% interest rate, and has a face amount of $8,633.	2,633

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NOTE 6 – NOTES PAYABLE (continued)

Note payable to Prosperity Bank. The note is dated September 10, 2013, has a 4.25% interest rate, and has a face amount of $401,250. Secured by 26.52 acres of land in Manvel, Texas.	329,283
Date of maturity is September 10, 2028.	
Total notes payables	435,697
Less current liabilities	54,637
Total notes payables, net	$381,060

Maturities of notes payable over the next five years and thereafter are as follows:

Year Ending December 31,	Amount
2017	$54,637
2018	27,871
2019	29,079
2020	30,339
2021	31,654
Thereafter	262,117
Total	$435,697

NOTE 7- CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, investments and trade receivables. The Organization maintains it primary cash balances at one financial institution and investments with a brokerage house. The cash balances are insured by the FDIC for up to $250,000 per account. Cash held in the brokerage house are also insured by the FDIC for up to $250,000 per account and securities are insured by the Securities Investor Protection Corporation (SPIC) for each securities account for up to $500,000. Additional protection in the event the SPIC limits are exhausted offer protection for up to an aggregate of $600 million.

NOTE 8 – DONATED NONCASH GIFTS

Contributions of services are recognized when services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which an amount has been recorded in the financial statements because the services did meet the criteria for recognition under generally accepted accounting principles. The estimated value of these services is $18,000 for 2016. These amounts are reflected in the financial statements.

Noncash gifts, including donated items such as real estate, supplies, and equipment, are reported on the financial statements. They are recorded based on their fair market value on the date of the gift. The estimated fair market value of donated supplies for the year ended December 31, 2016 was $14,069.

NOTE 9 – COMMUNITY PROGRAM EXPENSES

Community Program expenses include investigation of equine abuse, neglect, seizure, court, emergency equine assistance (hay bank), transportation of equine, medical, farrier and dental expenses. There are also expenses for the property housing the equine, feed and hay, advertising for adoptions and training of personnel.

NOTE 10 - GAINS AND LOSSES (realized and unrealized) INCLUDED IN CHANGES IN NET ASSETS FOR THE YEAR END DECEMBER 31, 2016 ARE REPORTED IN TRADING REVENUES AND OTHER REVENUES AS FOLLOWS:

	Trading Revenues	**Other Revenues**
Total gains or losses including in changes in net assets, realized	$ (36,211)	$ 21,726
Change in unrealized gains/losses relating to assets still held at reporting date	$ (13,246)	$ -0----

Equities, Bond Funds and Exchange Traded Funds are considered level one investments under the fair value hierarchy because they are traded on the active market. There have been no changes to the valuation method from the prior year. The trading securities are bonds or mutual funds. Mutual funds are valued at net asset value. Other revenue generators are dividends.

NOTE 11 - CONCENTRATION OF VENDORS

The organization at this time utilizes the services of a fundraising company that helped generate 47% of the total revenue.

NOTE 12 - EMPLOYEE BENEFIT PLAN

Employees of the Organization can participate in the Habitat for Horses, Inc. 401(k) Plan. Employees are eligible to participate after reaching the age of twenty one and completing one year of service. Matching contributions made by the Organization are at its discretion. Contributions to the Plan by the Organization totaled approximately $0 in 2016.

NOTE 13 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 22 2017 the date the financial statements were available to be issued. There were no additional subsequent events.