

Financial Statements

Habitat for Horses, Inc.

December 31, 2018



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Habitat for Horses, Inc.

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Katherine Overbeck Maxwell, PLLC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2018, and the related statements of activities 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, 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.

Katherine Overbeck Maxwell, CPA, PLLC
Galveston, Texas
June 24, 2019

Habitat for Horses, Inc.
Statement of Financial Position
December 31, 2018

	2018
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 219,995
Accounts Receivable, net of Allowance for Doubtful Accounts \$3,074	1,744
Investment	503,348
Prepaid Expenses	8,179
Other Assets	1,700
Total Current Assets	734,966
Property and Equipment, net of Accumulated Depreciation \$474,956	2,791,316
TOTAL ASSETS	\$ 3,526,282
LIABILITIES	
Current Liabilities	
Accounts Payable	99,038
Credit Cards	88,704
Payroll Liabilities	72
Notes Payable	
Principal Amount	962,525
Less: Unamortized Loan Insurance Cost	(6,870)
Notes Payable, net	955,655
Total Current Liabilities	1,143,469
TOTAL LIABILITIES	1,143,469
NET ASSETS	
Without Donor Restrictions	2,382,813
TOTAL NET ASSETS	2,382,813
TOTAL LIABILITIES AND NET ASSETS	\$ 3,526,282

See accompanying notes to the financial statements

Habitat for Horses, Inc.
Statement of Activities
For the Year Ending December 31, 2018

	2018
Operating Activities	
REVENUE AND OTHER SUPPORT	
Contributions	\$ 1,026,837
Contributions in Kind	51,696
Grants	11,975
Adoption Fees	7,350
Merchandise Sales	3,591
Bingo Income	121,753
Interest and Dividends	13,308
Gain (Loss) on Sals of Assets	45
Other Income	10,823
	1,247,378
TOTAL REVENUE AND OTHER SUPPORT	1,247,378
EXPENSES	
Program	1,370,978
Management & General	97,972
Fundraising	58,126
	1,527,076
TOTAL EXPENSES	1,527,076
CHANGE IN NET ASSETS FROM OPERATIONS	(279,698)
Nonoperating Activities	
Investment Return, net	(53,244)
TOTAL NONOPERATING ACTIVITIES	(53,244)
CHANGE IN NET ASSETS	(332,942)
NET ASSETS, BEGINNING OF YEAR	2,715,755
NET ASSETS, END OF YEAR	\$ 2,382,813

See accompanying notes to the financial statements

Habitat for Horses, Inc.
Statement of Functional Expenses
For the Year Ending December 31, 2018

	2018			
	Program Services	Management & General	Fundraising	Total
EXPENSES				
Payroll Expense	\$ 326,246	\$ 38,382	\$ 19,191	\$ 383,819
Payroll Tax Expense	24,732	2,910	1,455	29,097
Employee Benefits	32,265	3,796	1,898	37,959
Total Salaries & Related Expenses	383,243	45,088	22,544	450,875
Advertising	-	-	31	31
Bank Charges	20,664	-	-	20,664
Computer and Software	5,377	-	-	5,377
Educational Expenses	285,022	-	-	285,022
Grant and Contract	200	-	-	200
Horse Expenses	293,869	-	-	293,869
Insurance	22,261	-	-	22,261
Interest	52,738	22,602	-	75,340
License and Permits	-	-	685	685
Miscellaneous	-	1,898	-	1,898
Membership and Subscription	-	-	315	315
Office Expenses	1,449	2,172	-	3,621
Professional Fees	21,594	15,836	34,551	71,981
Ranch Expenses	108,861	-	-	108,861
Repairs and Maintenance	24,125	-	-	24,125
Postage	18,446	10,376	-	28,822
Telephone and Internet	3,784	-	-	3,784
Travel, Meals, Entertainment	2,645	-	-	2,645
Utilities	2,020	-	-	2,020
Veterinarian Expenses	46,194	-	-	46,194
Federal Income Taxes	10,012	-	-	10,012
Other Taxes	1,444	-	-	1,444
Depreciation	67,030	-	-	67,030
	-	-	-	-
TOTAL EXPENSES	\$ 1,370,978	\$ 97,972	\$ 58,126	\$ 1,527,076

See accompanying notes to the financial statements

Habitat for Horses, Inc.
Statement of Cash Flows
For the Year Ending December 31, 2018

	2018
CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase (Decrease) in Net Assets	\$ (332,942)
Adjustments to Reconcile Net Assets to Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	76,190
Net of Realized and Unrealized (Gain) and Loss	69,142
(Increase) Decrease in Accounts Receivable	350
Increase (Decrease) in Allowance for Uncollectible	(50)
(Increase) Decrease in Prepaid Expenses	(8,179)
(Increase) Decrease in Other Assets	(685)
(Increase) Decrease in Loan Cost	(16,029)
Increase (Decrease) in Accounts Payable	46,080
Increase (Decrease) in Credit Cards	40,664
Increase (Decrease) in Payroll Taxes Liabilities	(3,455)
Increase (Decrease) in Income Tax Payable	(10,332)
	(139,246)
Net Cash Provided by (Used in) Operating Activities	(139,246)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Sale of Investments	123,894
Purchase of Investments	(146,261)
Proceeds from Sale of Equipment	(45)
Purchase of Land and Equipment	(2,071,447)
Retirement of Equipment	2,500
	(2,091,359)
Net Cash Provided by (Used in) Investing Activities	(2,091,359)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Note Payable	1,000,000
Payment of Note Payable	(37,475)
	962,525
Net Cash Provided by (Used in) Financing Activities	962,525
NET INCREASE (DECREASE) IN CASH	(1,268,080)
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	1,488,075
CASH AND CASH EQUIVALENT, END OF YEAR	\$ 219,995
 Supplemental Cash Flow Information:	
Cash Paid for Interest	\$ 75,339
Cash Paid for Income Taxes	\$ 10,012

See accompanying notes to the financial statements

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 1 – DESCRIPTION OF THE 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 purpose of the Organization is a) To promote and secure the safety, well-being, and health of horses. b) To encourage education concerning the physical and mental health of horses. c) To utilize horses in the growth and mental health of humans, either adult or children, through education, demonstration and connection. d) To study, promote, and enhance the proper training of horses through positive training techniques. e) To provide a home for those horses who are no longer able to be productive. f) To return to health, if possible, those owned horses that are deemed sick or injured.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classification:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing in the primary objectives of the organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. There are no net assets with donor restrictions at December 31, 2018.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization’s ongoing horse services and interests and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes. Cash is held in both interest bearing and non-interest bearing demand accounts.

Concentrations of Credit Risk

The Organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The cash balances are insured by the FDIC for up to \$250,000 per account. The Organization has not experienced, nor does it anticipate, any loss with respect to such accounts. As of December 31, 2018, there is no uninsured cash balance.

Accounts Receivable

Accounts receivable is stated at unpaid restitution balances. An allowance for doubtful accounts in the amount of \$3,074 was recorded in fiscal year December 31, 2018 for certain accounts considered uncollectible.

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. The Organization does not have any pledges receivable as of December 31, 2018.

Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives range from five to twenty-five years. The Organization's policy is to capitalize all purchases and non-cash donations for greater than \$5,000 and expense normal repairs and maintenance as incurred. Gains and losses on retired or sold property and equipment are reflected in the change in net assets for the period.

Investment

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities. Purchase and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

The Organization owns a twenty percent (20%) stake in King Bingo Trust which does not have a readily determinable fair value. Therefore, the value of the investment is calculated based on income reports issued by the trust and distributions received by the trust during the year.

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Organization groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- | | |
|---------|---|
| Level 1 | Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date. |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none">• Quoted prices for similar assets/liabilities in active markets;• Quoted prices for identical or similar assets in non-active markets;• Inputs other than quoted prices that are observable for the asset/liability; and,• Inputs that are derived principally from or corroborated by other observable market data. |
| Level 3 | Unobservable inputs that cannot be corroborated by observable market data. |

For the year ended December 31, 2018, all investments are grouped as Level 1 with the exception of investment in King Bingo Trust which is grouped as Level 3.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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 restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Donations

The Organization received donated medical supplies of \$39,084 and ranch supplies of \$12,612 for the year ended December 31, 2018. Such amounts are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statement of activities and statements of functional expenses.

A substantial number of volunteers have made significant contributions of their time in furtherance of the Organization's mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expense that are allocated include salaries and benefits, professional fees, office, and postage, which are allocated on the basis of estimates of time and effort, as well as interest, which is allocated on a square-footage basis.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Tax Status

The Organization is exempt from income tax under IRS section 501(c)(3) and is classified as a public charity under IRS section 509(a)(1) and section 170(b)(1)(A)(vi). However, it is subject to tax on income unrelated to its exempt purpose as Unrelated Business Income (UBI), unless that income is otherwise excluded by the Code. Due to the UBI, income tax expense of \$10,012 incurred as of December 31, 2018.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 3 – AVAILABILITY OF FINANCIAL ASSETS

The Organization's goal is generally to maintain financial assets to meet its operating expenses needs. The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2018
Financial assets at year end:	
Cash and Cash Equivalents	\$ 219,995
Accounts Receivable	1,744
Investments	435,465
Total Financial Assets	\$ 657,204

NOTE 4 - INVESTMENTS

The following is a summary of investments at December 31, 2018:

	2018
Investment Portfolio:	
Cash and Equivalents	\$ 23,110
Equities	304,580
Bond Mutual Funds	107,775
Subtotal of Investment Portfolio	435,465
Other Investments:	
Kings Bingo Trust	67,883
Total Investments	\$ 503,348

NOTE 5 – OTHER INVESTMENTS

The Organization initially invested \$50,000 for a twenty percent (20%) ownership stake of Kings Bingo Trust which operates a bingo hall in Webster, Texas. Proceeds from operations go to benefit five local charities including the Organization. As of December 31, 2018, the Organization received \$121,753 from the investment and the investment in Kings Bingo Trust is valued at \$67,883.

Habitat for Horses, Inc.
Notes to the Financial Statements
December 31, 2018

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 are as follows:

	2018
Land	\$ 2,344,360
Hay Equipment	287,897
Computer Equipment	3,405
Ranch Equipment	170,333
Buildings and Improvements	357,338
Medical Equipment	32,545
Vehicles	39,084
Machinery	31,310
Total	3,266,272
Accumulated Depreciation	(474,956)
Net Book Value	\$ 2,791,316

For the year ended December 31, 2018, depreciation expense totaled \$67,030.

NOTE 7 – NOTES PAYABLE

The Organization has an obligation under notes payable to a financial institution. The note is dated January 23, 2018 and has a face amount of \$1,000,000 with a 7.1375% interest rate. It is secured by ranch property. Principal balance as of December 31, 2018, is \$962,525. Date of maturity is September 20, 2019.

NOTE 8 – RETIREMENT CONTRIBUTIONS

Employees of the Organization can participate in the Habitat for Horses, Inc. 401K 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 \$25,817 as of December 31, 2018.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 24, 2019, which is the date the financial statements were available to be issued. The Organization is not aware of any material subsequent events.