

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS AS
OF DECEMBER 31, 2017

Habitat for Horses, Inc.

Annual Audit 2017

Doran Johnston PLLC

Habitat for Horses, Inc.
Galveston County, Texas
Accountants' Report and Financial Statements
December 31, 2017



Doran Johnston PLLC

Texas Certified Public Accounting Firm

Habitat for Horses, Inc.
December 31, 2017

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Independent Accountants' Report on Financial Statements

To the Board of Directors
Of Habitat for Horses
Galveston County, Texas

Report on the Financial Statements

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, 2017, 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 Company's preparation and fair presentation of the financial statement 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 Company'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 statement.

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, 2017, and the changes in its net assets and its cash flows for the year in accordance with accounting principles generally accepted in the United States.

Doran Johnston PLLC
May 2, 2018

Member of the American Institute of Certified Public Accountants
Member of the Texas Society of Certified Public Accountants

Habitat for Horses, Inc.
Financial Statements

Habitat for Horses, Inc.
Statement of Financial Condition
For the Year Ended December 31, 2017

ASSETS			
	Current Assets		
	Cash & Cash Equivalents	\$	1,515,475
	Account Receivable		2,044
	Investments		506,412.77
			2,023,932
	Non-Current Assets		
	Capital assets, net of accumulated depreciation		789,354
	Other assets, net		1,015
			790,369
			2,814,301
TOTAL ASSETS		\$	2,814,301
LIABILITIES			
	Current Liabilities		
	Accounts Payable	\$	52,958
	Other Payables		61,750
			114,709
			114,709
TOTAL LIABILITIES			114,709
			2,699,593
UNRESTRICTED NET ASSETS		\$	2,699,593
TOTAL LIABILITIES AND NET ASSETS		\$	2,814,301

Habitat for Horses, Inc.
Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions	\$ 1,361,723	\$ -	\$ -	\$ 1,361,723
Contributions in Kind	-			-
Adoption Fees	22,351			22,351
Membership fees	-			-
Merchandise Sales	3,765			3,765
Local & Private Grants	207,000			207,000
Net Investment Income	138,471			138,471
Loss on Sale of Assets	(234,395)			(234,395)
Other Revenues	39,047			39,047
Total Revenues, gains, and support	1,537,962	-	-	1,537,962
Expenses				
Community Program Services	1,308,555			1,308,555
Supporting Services	100,350			100,350
Fundraising	121,977			121,977
Total Expenses	1,530,882	-	-	1,530,882
Change in Net Assets	7,080	-	-	7,080
Net Assets, Beginning of year	2,692,512	-	-	2,692,512
Net Assets, End of year	\$ 2,699,593	\$ -	\$ -	\$ 2,699,593

Habitat for Horses, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Community Program Services	Supporting Services	Fundraising	Total
Personnel Expense	\$ 408,588	\$ 31,779	\$ 13,620	\$ 453,987
Other Expenses				
Bank Charges	21,412			21,412
Computer Expense	7,281			7,281
Depreciation Expense	76,073			76,073
Education Expense	242,639			242,639
Grant and Contract Expense	21,251			21,251
Horse Expense	316,088			316,088
Insurance Expense	43,241			43,241
Interest Expense		19,805		19,805
Invest exp & loss				-
License and other Expense			3,700	3,700
Merchandise for resale			1,458	1,458
Miscellaneous Expense		15,918		15,918
Professional Fees	17,356	28,257	52,009	97,622
Ranch Expense	60,923			60,923
Repairs & Maintenance Expense	22,120	4,590		26,710
Supplies & Postage Expense	1,474		51,190	52,664
Telephone and Internet Expense	3,997			3,997
Travel, meals, & Entertainment	1,992			1,992
Utilities	293			293
Veterinarian Expense	63,827			63,827
Volunteer Expense	-	-	-	-
Total Other Expenses	899,967	68,570	108,357	1,076,894
Total Expenses	\$ 1,308,555	\$ 100,350	\$ 121,977	\$ 1,530,882

Habitat for Horses, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash flows from operating activities	
Change in net assets	\$ 7,080
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	76,073
Changes in operating assets and liabilities:	
Loss on disposal of land, building and Equip	234,395
Net unrealized and realized gains on Investments	(15,548)
Bad debt expense	3,124
Changes in operating assets and liabilities	
Increase in Accounts Receivable	(2,044)
Decrease in Escrow	42,780
Decrease in Inventory	1,056
Decrease in Escrow	42,780
Decrease in Accounts Payable	73,113
Increase in Accrued Expenses	(61,750)
Net cash provided by operating activities	\$ 401,058
Cash Flows from Investing activities	
Proceeds from sales of Investments in Securities	\$ 198,000
Purchase of new securities	(355,353)
Proceeds from sale of Fixed Assets	1,722,878
Purchase of new facility	(200,000)
Net cash provided by investing activities	\$ 1,365,525
Cash flows for financing activities	
Payments on notes payable	\$ (435,697)
Net cash provided by financing activities	\$ (435,697)
Net decrease in cash and cash equivalents	\$ 1,330,886
Cash and cash equivalents, beginning of year	\$ 184,589
Cash and cash equivalents, end of year	\$ 1,515,475



Habitat for Horses, Inc.

Notes to the Financial Statements

NOTE 1: ORGANIZATION

Habitat for Horses, Inc. (HABITAT) 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. HABITAT is governed by a ten-member Board of Directors. The Board of Directors is selected pursuant to the organization's bylaws, and they significantly influence operations.

The purpose of HABITAT 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.

Under §149.001 of the Texas Agriculture Code it is illegal to possess, sell, or offer to sell horsemeat for human consumption. Other states have similar laws and Congress has tried and failed several times to pass a bill preventing the slaughter of horses for purpose of selling the meat for human consumption, as recently as 2017. Horse meat is considered a delicious in several countries outside of the United States and HABITAT tries to educate and prevent the deportation of horses to counties where horses can be slaughter and the meat sold to consumers.

In 2014, HABITAT 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.

In 2017 in a move to consolidate its facilities into one large facility where most of the care for the horses would be provided and a second smaller facility for inspection, triage and quarantine of newly acquired horses HABITAT sold its facilities located in Manvel, TX and a Cleveland, TX and purchased a new facility in Alvin, TX that was completed in 2018. HABITAT currently has its Ragtime Ranch, located in Streetman, Texas on the market for sale and plans to use the proceeds to further develop the new facility in Alvin.

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



NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with General Accepted Accounting Principles accepted in the United States of America (U.S. GAAP) as modified by the American Institute of Certified Public Accountants (AICPA).

The following is a summary of the significant accounting and reporting policies of the company.

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 end, 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 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. HABITAT does not solicit pledges and as of December 31, 2017 did not have any pledged receivables.

Investments – Investments in marketable securities with readily determinable 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. HABITAT 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.

Property and Equipment – Property and equipment purchased by HABITAT are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and non-cash donations with a basis in excess of \$5,000 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 and 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 invested in property and equipment are transferred to unrestricted net assets.

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 revenue 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 HABITAT 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 improvement drive or in an appeal for a particular program).

Temporary and Permanent Restrictions – Generally, a restriction is temporary if HABITAT 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 HABITAT'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 HABITAT 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.

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) HABITAT has a similar policy for accounting for restricted investment income and gains. For example, an Organization \$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 HABITAT meets the criteria in this paragraph. If the educational seminar straddled HABITAT'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). However, income that is derived from sources that are unrelated to HABITAT's mission statement is taxed as Unrelated Business Income (UBI).

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, tie 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.

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

In 2017 HABITAT moved its investment account from Charles Schwab & Co., Inc. to UBS Financial Services Inc. As of December 31, 2017, the balance in the investment account included:

	<u>Fair Value</u>
Cash and money balances	\$ 27,401
Bond mutual Funds	102,366
Equities	329,822
Total	<u>\$ 459,588</u>

The cash and money balances in the account are included in the organization's cash and cash equivalent balances on the Statement of Financial Condition.



NOTE 4 – OTHER INVESTMENTS

HABITAT initially invested \$50,000 for a twenty percent (20%) ownership stake of Kings Bingo Trust which operates a bingo hall in Webster (7) days a week in a family friendly environment where patrons can enjoy good food, cold beer and wine in either a smoking or non-smoking area. Proceeds from operations go to benefit five local charities including HABITAT.

As of December 31, 2017, HABITAT’s investment in Kings Bingo Trust is valued at \$74,226.

NOTE 5 – PROPERTY AND EQUIPMENT

In 2017 HABITAT put on the market its facilities in Manvel, Cleveland and Streetman Texas with the intention to use the proceeds from the sale of each property to purchase a much larger property in Alvin, Texas where it can consolidate its equipment and resources to provide better care of the horses in its care

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.

Property and Equipment at December 31, 2017 are as follows:

Land	544,360
Hay Equipment	287,896
Computer Equipment	3,405
Ranch Equipment	136,223
Buildings and Improvements	106,552
Medical Equipment	30,095
Vehicles	39,084
Machinery	<u>26,500</u>
Total	1,174,115
Accumulated Depreciation	<u>384,761</u>
Net	789,354



NOTE 6 – NOTES PAYABLE

With the sale of its ranch facilities in Manvel and Cleveland, Texas HABITAT was able to pay-off its Notes Payable that were attached to those properties.

Habitat for Horses had no obligations under notes payable as of December 31, 2017.

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject HABITAT to concentrations of credit risk consist principally of cash, cash equivalents, investments and trade receivables. HABITAT maintains its 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 (SIPC) for each securities account for up to \$500,000. Additional protection in the event the SIC 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 provide 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 \$0 for 2017. 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, 2017 was \$0.

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) INCLUDING IN CHANGES IN NET ASSETS FOR THE YEAR END DECEMBER 31, 2017 ARE REPORTED IN TRADING REVENUES AND OTHER REVENUES AS FOLLOWS:

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

HABITAT at this time utilizes the services of 1 fundraising company that generated 13% of the total revenue for the 2017 year ended. Habitat discontinued using the services of another fundraiser company that accounted for 6% of the total revenue.

NOTE 12 – EMPLOYEE BENEFIT PLAN

Employees of HABITAT 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 HABITAT are at its discretion. Contributions to the Plan by HABITAT totaled approximately \$53,466.07

NOTE 13 – SUBSEQUENT EVENTS

In preparing these financial statements, HABITAT has evaluated events and transactions for potential recognition or disclosure through May 2, 2018 the date the financial statements were available to be issued. There were no additional subsequent events.