

HEROES AND HORSES, INC.
AUDITED FINANCIAL STATEMENTS
December 31, 2020 and 2019



AMATICS
CPA GROUP

HEROES AND HORSES, INC.
CONTENTS

AUDITED FINANCIAL STATEMENTS	<u>Page</u>
Independent auditors' report	3 - 4
Statements of financial position	5
Statements of activities	6 - 7
Statements of functional expenses	8 - 9
Statements of cash flows	10
Notes to financial statements	11 - 15



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heroes and Horses, Inc.
Belgrade, MT

Opinion

We have audited the accompanying financial statements of Heroes and Horses, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heroes and Horses, Inc., as of December 31, 2020 and 2019, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heroes and Horses, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heroes and Horses, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heroes and Horses, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heroes and Horses, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Amatics CPA Group

Bozeman, Montana

October 18, 2021

HEROES AND HORSES, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,624,378	\$ 922,441
Grants receivable	119,078	-
Prepaid expenses	2,736	1,719
Other assets	1,035	-
Total current assets	1,747,227	924,160
PROPERTY AND EQUIPMENT		
Equipment	211,616	131,720
Improvements	8,540	8,540
Livestock	136,168	85,099
Ranch	3,100,000	-
Vehicles and trailers	280,371	250,871
	3,736,695	476,230
Less: accumulated depreciation	(313,300)	(248,102)
Total property and equipment	3,423,395	228,128
Total assets	\$ 5,170,622	\$ 1,152,288

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 5,215	\$ 11,979
Credit card payable	14,319	16,253
Payroll liabilities	9,892	7,768
Deferred revenue	8,140	-
Current portion note payable	27,959	-
Total current liabilities	65,525	36,000
NOTE PAYABLE, net of current portion	1,677,041	-
NET ASSETS		
Without donor restrictions	3,376,671	1,073,097
With donor restrictions	51,385	43,191
Total net assets	3,428,056	1,116,288
Total liabilities and net assets	\$ 5,170,622	\$ 1,152,288

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Fundraising events	\$ 88,687	\$ -	\$ 88,687
Merchandise and goods	12,879	-	12,879
Donations	829,629	2,126,371	2,956,000
Grants	64,100	-	64,100
In-kind contributions	59,978	-	59,978
Investment income	89	-	89
Satisfaction of program restrictions	<u>2,118,177</u>	<u>(2,118,177)</u>	<u>-</u>
Total revenue and support	<u>3,173,539</u>	<u>8,194</u>	<u>3,181,733</u>
EXPENSES			
Program	566,125	-	566,125
Development	163,182	-	163,182
Administration	<u>155,114</u>	<u>-</u>	<u>155,114</u>
Total expenses	<u>884,421</u>	<u>-</u>	<u>884,421</u>
OTHER INCOME (EXPENSE)			
Gain on disposal of assets	<u>14,456</u>	<u>-</u>	<u>14,456</u>
CHANGE IN NET ASSETS			
Net assets at beginning of year	<u>1,073,097</u>	<u>43,191</u>	<u>1,116,288</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 3,376,671</u></u>	<u><u>\$ 51,385</u></u>	<u><u>\$ 3,428,056</u></u>

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Fundraising events	\$ 673,040	\$ -	\$ 673,040
Merchandise and goods	11,414	-	11,414
Donations	478,618	107,473	586,091
In-kind contributions	49,040	-	49,040
Satisfaction of program restrictions	<u>64,282</u>	<u>(64,282)</u>	<u>-</u>
Total revenue and support	<u>1,276,394</u>	<u>43,191</u>	<u>1,319,585</u>
EXPENSES			
Program	695,655	-	695,655
Development	184,400	-	184,400
Administration	<u>145,822</u>	<u>-</u>	<u>145,822</u>
Total expenses	<u>1,025,877</u>	<u>-</u>	<u>1,025,877</u>
OTHER INCOME (EXPENSE)			
Loss on disposal of assets	<u>(8,368)</u>	<u>-</u>	<u>(8,368)</u>
CHANGE IN NET ASSETS			
Net assets at beginning of year	<u>830,948</u>	<u>-</u>	<u>830,948</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,073,097</u></u>	<u><u>\$ 43,191</u></u>	<u><u>\$ 1,116,288</u></u>

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2020

	<u>Program</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
Administration	\$ 1,825	\$ -	\$ 2,852	\$ 4,677
Advertising and marketing	13,488	5,417	1,116	20,021
Bank and credit card fees	15	5,440	2,814	8,269
Contracted fees	4,950	-	-	4,950
Depreciation	72,654	-	-	72,654
Dues and subscriptions	589	1,287	8,663	10,539
Equine expenses	50,505	2,032	-	52,537
Equipment costs	24,860	-	720	25,580
Fundraising events	-	4,625	-	4,625
Insurance	12,909	-	2,140	15,049
Occupancy	9,571	6,943	8,099	24,613
Office expenses	564	1,635	3,923	6,122
Payroll and related costs	272,154	130,991	94,335	497,480
Professional fees	17,083	-	29,155	46,238
Program - food	1,280	-	-	1,280
Program - lease and storage	35,236	-	1,200	36,436
Program - supplies and equipment	13,019	-	-	13,019
Taxes, licenses, and fees	266	-	12	278
Travel	35,157	4,812	85	40,054
	<u>566,125</u>	<u>163,182</u>	<u>155,114</u>	<u>884,421</u>
Total expenses	<u>\$ 566,125</u>	<u>\$ 163,182</u>	<u>\$ 155,114</u>	<u>\$ 884,421</u>

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

	<u>Program</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
Administration	\$ 260	\$ -	\$ 100	\$ 360
Advertising and marketing	7,554	16,510	5,379	29,443
Bank and credit card fees	-	1,126	5,605	6,731
Contracted fees	27,976	360	-	28,336
Depreciation	62,817	-	-	62,817
Dues and subscriptions	660	2,388	8,214	11,262
Equine expenses	61,267	-	-	61,267
Equipment costs	31,256	-	-	31,256
Fundraising events	-	108,431	218	108,649
HR expenses	368	-	941	1,309
Insurance	4,107	-	10,407	14,514
Occupancy	1,304	462	20,968	22,734
Office expenses	873	2,173	13,874	16,920
Payroll and related costs	336,280	-	72,704	408,984
Professional fees	-	-	5,559	5,559
Program - food	12,311	334	-	12,645
Program - lease and storage	46,950	-	-	46,950
Program - supplies and equipment	56,997	-	40	57,037
Taxes, licenses, and fees	673	135	-	808
Travel	44,002	52,481	1,813	98,296
	<u>44,002</u>	<u>52,481</u>	<u>1,813</u>	<u>98,296</u>
Total expenses	<u>\$ 695,655</u>	<u>\$ 184,400</u>	<u>\$ 145,822</u>	<u>\$ 1,025,877</u>

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from donors and grantors	\$ 2,996,814	\$ 1,259,231
Other cash receipts	12,968	11,414
Payments for salaries and related cost	(495,356)	(407,088)
Payments to vendors	<u>(264,024)</u>	<u>(497,170)</u>
Net cash provided by operating activities	<u>2,250,402</u>	<u>366,387</u>
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchases of fixed assets	(1,552,965)	(99,735)
Proceeds from sale of fixed assets	<u>4,500</u>	<u>-</u>
Net cash used by investing activities	<u>(1,548,465)</u>	<u>(99,735)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>701,937</u>	<u>266,652</u>
Cash and cash equivalents at beginning of year	<u>922,441</u>	<u>655,789</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,624,378</u></u>	<u><u>\$ 922,441</u></u>

See notes to financial statements.

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Heroes and Horses, Inc. (the Organization) was established in 2014 as a 501(c)(3) Montana non-profit corporation. Heroes and Horses, Inc. exists to redefine the relationship between challenge and purpose, by reintegrating combat veterans through an innovative, comprehensive and effective process that uses the wilderness, the horse/human connection, and a proven leadership model.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. Account balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. The Organization has not experienced any losses in such accounts. As of December 31, 2020 and 2019, funds exceeded federally insured limits by \$777,996 and \$597,611, respectively.

Fixed Assets

Purchased property and equipment are stated at cost. An item with a purchase price over \$500 is capitalized. Donations of property and equipment are recorded as support at their estimated fair value at date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Property and equipment donated with time restriction are reclassified as unrestricted once all time restrictions are met. Absent donor stipulations regarding how long those donated assets are to be placed in service, the Organization records these assets as unrestricted support. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 7 years.

Advertising

Advertising costs are expensed as incurred.

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.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, has no provision for federal income taxes. Heroes and Horses, Inc. has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi). The Organization's information returns (Form 990) are open to examination by the IRS, generally for three years after they were filed or the due date of the return, whichever is later.

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization tracks and allocates all direct expenses to program, development, and administration. Indirect costs are allocated on the basis of staff time and effort.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Contributions and Grants

Contributions and grants are recognized as revenues in the period cash or assets are transferred or pledges are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of receipt.

Grants receivable and unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Grants and promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows, discounted at the short term treasury bill rate. All grants receivable at December 31, 2020 were collected in 2021. Amortization of the discount is included in contribution or grant revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Management considers all receivables to be fully collectible; therefore, no allowance has been recorded as of December 31, 2020 and 2019.

The Organization also has \$362,000 in conditional promises to give that will be recognized as revenue when the conditions are substantially met. The funds may be used for general operating support. These conditional promises are expected to be received as follows: \$200,000 in 2021 and \$162,000 in 2022.

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,624,378	\$ 922,441
Receivables	<u>119,078</u>	<u>-</u>
Financial assets, at year end	<u>\$ 1,743,456</u>	<u>\$ 922,441</u>

The Organization receives various kinds of donor-restricted contributions throughout the year. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

3. OPERATING LEASES

The Organization leases a ranch under a month-to-month contract beginning September 2019, for \$1,200 per month; amended to \$2,000 per month beginning October 2020. The amounts paid under this lease for the years ended December 31, 2020 and 2019, were \$16,800 and \$4,800, respectively.

The Organization leases office space under a month-to-month contract beginning October 2019, for \$1,210 per month; amended to \$1,010 per month beginning March 2020. The amounts paid under this lease for the years ended December 31, 2020 and 2019, were \$12,520 and \$3,200, respectively.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose:		
Adopt-a-Horse	\$ 17,290	\$ 5,404
Programs	<u>34,095</u>	<u>37,787</u>
	<u>\$ 51,385</u>	<u>\$ 43,191</u>

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

5. IN-KIND DONATIONS

The Organization records various types of in-kind support including goods, services, and property and equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The following in-kind contributions were recognized for the year ended December 31, 2020:

	<u>Program</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
Expenses:				
Equine expenses	\$ 13,811	\$ -	\$ -	\$ 13,811
Equipment costs	1,550	-	-	1,550
Professional fees	-	-	1,400	1,400
Program - food	945	-	-	945
Program - lease and storage	300	-	-	300
Program - supplies and equipment	2,696	-	-	2,696
Travel	138	-	-	138
Property and equipment:				
Livestock	24,999	-	-	24,999
Vehicles	4,500	-	-	4,500
Equipment	9,639	-	-	9,639
	<u>\$ 58,578</u>	<u>\$ -</u>	<u>\$ 1,400</u>	<u>\$ 59,978</u>

The following in-kind contributions were recognized for the year ended December 31, 2019:

	<u>Program</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
Expenses:				
Equine expenses	\$ 1,542	\$ -	\$ -	\$ 1,542
Equipment costs	-	-	800	800
Program - supplies and equipment	14,347	-	-	14,347
Property and equipment:				
Livestock	20,000	-	-	20,000
Equipment	12,351	-	-	12,351
	<u>\$ 48,240</u>	<u>\$ -</u>	<u>\$ 800</u>	<u>\$ 49,040</u>

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

6. NOTE PAYABLE

On December 9, 2020, the Organization was granted an loan for the purchase of a ranch. The original loan is in the amount of \$1,705,000, secured by real property, matures in January 2051 and bears interest at a rate of 3.9% per annum. The loan is payable in monthly payments of \$8,042, including principal and interest, commencing on February 1, 2021.

Annual maturities for subsequent years are as follows:

2021	\$	27,959
2022		31,661
2023		32,918
2024		34,225
2025		35,584
Thereafter		<u>1,542,653</u>
		<u>\$ 1,705,000</u>

7. PAYCHECK PROTECTION PROGRAM LOAN

On April 13, 2020, the Organization was granted a loan from Manhattan Bank in the aggregate amount of \$64,100, pursuant to the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) under the CARES Act. The loan was forgiven in October 2020, at which point the Organization recorded grant revenue in accordance with the guidance for conditional contributions where there is no longer a measurable performance or other barrier and a right to return the loan.

8. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through October 18, 2021, the date on which the financial statements were available to be issued.