

HABITAT FOR HORSES, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Habitat For Horses, Inc.
Hitchcock, Texas

I 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, 2015, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2015, 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.

Beginning net assets has been restated due to a correction of an error relating to assets received in connection with the dissolution of Happy Trails for Old Tails, Inc. as disclosed in Note 11 to the financial statements.

Thomas J Crayton, CPA, LLC

Stafford, Texas
July 22, 2016

A handwritten signature in blue ink that reads "Thomas J. Crayton, CPA, LLC". The signature is written in a cursive style with a large, stylized initial "T".

HABITAT FOR HORSES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

THOMAS J CRAYTON, CPA, LLC

ASSETS

Cash and cash equivalents	\$ 663,269
Investments	597,036
Prepaid expenses	59,026
Capital assets, net of accumulated depreciation	<u>2,449,994</u>

TOTAL ASSETS	<u><u>\$ 3,769,325</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 134,166
Accrued expenses	10,673
Notes payable	<u>483,353</u>
Total liabilities	<u>628,192</u>

UNRESTRICTED NET ASSETS	<u>3,141,133</u>
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Total liabilities and net assets	<u><u>\$ 3,769,325</u></u>
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HABITAT FOR HORSES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted
Revenue, Gains and Other Support	
Contributions	\$ 1,556,038
Contributions in-kind	44,281
Adoption fees	16,400
Membership fees	375
Merchandise sales	4,533
Local and private grants	79,400
Investment income	308
Other revenues	14,360
Total Revenue, Gains and Other Support	1,715,695
Expenses	
Community program services	1,803,210
Supporting services	73,852
Fundraising	319,093
Total Expenses	2,196,155
DECREASE IN NET ASSETS	(480,460)
NET ASSETS, beginning of year - as adjusted (Note 11)	3,621,593
NET ASSETS, end of year	\$ 3,141,133

THOMAS J CRAYTON, CPA, LLC

HABITAT FOR HORSES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Community Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
PERSONNEL EXPENSES	\$ 390,949	\$ 30,407	\$ 13,032	\$ 434,388
OTHER EXPENSES				0
Bank charges			10,364	10,364
Computer expenses	4,095		30,499	34,594
Depreciation	78,179			78,179
Education	6,494			6,494
Horse expenses	309,618			309,618
Insurance		241	46,433	46,674
Interest expense		20,047		20,047
Investment expenses & losses		10,602		10,602
Licenses and other expenses	3,119	12,331	13,018	28,468
Merchandise for resale			23,058	23,058
Miscellaneous expenses			1,518	1,518
Professional fees	85,574		94,003	179,577
Ranch expenses	352,963			352,963
Repairs & maintenance	64,285			64,285
Supplies and postage	385,347	224	81,179	466,750
Telephone & internet	7,560			7,560
Travel, meals & entertainment	14,209			14,209
Utilities	11,839		5,989	17,828
Veterinarian expenses	54,087			54,087
Volunteer expenses	34,892			34,892
Total other expenses	<u>1,412,261</u>	<u>43,445</u>	<u>306,061</u>	<u>1,761,767</u>
Total expenses	<u>\$ 1,803,210</u>	<u>\$ 73,852</u>	<u>\$ 319,093</u>	<u>\$ 2,196,155</u>

THOMAS J CRAYTON, CPA, LLC

HABITAT FOR HORSES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (480,460)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:	
Depreciation	78,179
Changes in operating assets and liabilities:	
Accounts receivable	16,366
Receivable from Happy Trails for Old Tails, Inc.	1,066,743
Prepaid expenses	43,417
Accounts payable	81,033
Accrued expenses	<u>10,673</u>
Net cash provided by operating activities	<u>815,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(2,153,797)
Proceeds from sales of investments	1,597,910
Purchases of capital assets	<u>(1,279,873)</u>
Net cash used in investing activities	<u>(1,835,760)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes payable	<u>(89,249)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,109,058)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,772,327</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 663,269</u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest	<u>\$ 20,047</u>

THOMAS J CRAYTON, CPA, LLC

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 twelve-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.

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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.

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 leasehold improvements and 5 – 10 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 which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 requires 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.

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 Section 501(c)(3) and is classified as a public charity under 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.

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 3 – INVESTMENTS

Investments as of December 31, 2015 are as follows:

	Cost	Fair Value
Bond mutual funds	\$519,438	\$512,384
Mortgage-backed bond mutual fund	<u>86,241</u>	<u>84,652</u>
Total	<u>\$605,679</u>	<u>\$597,036</u>

NOTE 4 – PREPAID EXPENSES

Prepaid expenses at December 31, 2015 are as follows:

Escrow funds	\$42,163
Deposits	11,863
Licenses	<u>5,000</u>
Total	<u>\$59,026</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 are as follows:

Land	\$1,802,517
Hay equipment	315,184
Computer equipment	3,405
Ranch equipment	126,023
Buildings and improvements	375,631
Medical equipment	32,545
Vehicles	74,684
Machinery	<u>31,310</u>
Total	2,761,299
Accumulated Depreciation	<u>311,305</u>
Net	<u>\$2,449,994</u>

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 6 – NOTES PAYABLE

The Organization's obligations under notes payable consist of the following:

Note payable to Jerry Finch, a Board Member. The note is dated October 1, 2009, has a 3% interest rate, and has a face amount of \$92,341.49	
Secured by equipment and machinery Date of maturity was April 10, 2015.	\$ -
Note payable to John Deere Financial. The note is dated October 23, 2013, has a 0% interest rate, and has a face amount of \$23,500	
Secured by equipment and machinery Date of maturity is October 23, 2017.	11,309
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 Date of maturity is December 16, 2017.	50,584
Note payable to Prosperity Bank. The note is dated September 10, 2013, has a 5.25% interest rate, and has a face amount of \$128,000	
Secured by equipment and machinery Date of maturity is September 10, 2018.	69,375
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 equipment and machinery Date of maturity is September 10, 2028.	<u>352,085</u>
Total notes payable	<u>\$483,353</u>

HABITAT FOR HORSES, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 6 – NOTES PAYABLE (CONT.)

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$84,351
2017	75,384
2018	39,361
2019	24,597
2020	25,663
Thereafter	<u>233,997</u>
Total	<u>\$483,353</u>

NOTE 7 – DONATED SERVICES AND 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 \$34,892 for 2015. 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, 2015 was \$9,390.

NOTE 8 – RELATED PARTY TRANSACTIONS

In October 2009, a Board member had loaned money to the Organization. The loan was made to provide assistance in paying for routine operating expenses of the Organization. Such loan was repaid in its entirety during 2015.

HABITAT FOR HORSES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 9 – CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to credit risk include bank deposits. There was a \$210,143 uninsured deposit at a major financial institution at December 31, 2015. The Organization manages credit risk by maintaining these balances with high-quality financial institutions. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE 10 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 31, 2016, the date the financial statements were available to be issued. There were no additional subsequent events.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

In connection with the dissolution of Happy Trails for Tails, Inc. in December 2014, the Organization received approximately \$2.8 million in cash and investments as discussed in Note 1. Certain investments were not actually received by the Organization in 2014; however, they should have been reflected in the 2014 financial statements as a receivable. Below is a summary of this and other minor prior period adjustments:

Net assets, beginning of the year – as originally presented	\$2,513,701
Adjustment to record receivable for investments	1,066,743
Various minor adjustments	<u>41,149</u>
Net assets, beginning of the year – as restated	<u>\$3,621,593</u>