

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



AMATICS
CPA GROUP

**HEROES AND HORSES, INC.
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INDEPENDENT AUDITORS' REPORT

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

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

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.

Auditors' 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 auditors' 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 Organization'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 Organization'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 Heroes and Horses, Inc., as of December 31, 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.

Amatics CPA Group
Bozeman, Montana
October 30, 2020



HEROES AND HORSES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 922,441	
Prepaid expenses	1,719	

Total current assets \$ 924,160

PROPERTY AND EQUIPMENT

Equipment	131,720	
Improvements	8,540	
Livestock	85,099	
Vehicles and trailers	250,871	
	476,230	
Less: accumulated depreciation	(248,102)	

Total property and equipment 228,128

Total assets \$ 1,152,288

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 11,979	
Credit card payable	16,253	
Payroll liabilities	7,768	

Total current liabilities \$ 36,000

NET ASSETS

Without donor restrictions	1,073,097	
With donor restrictions	43,191	

Total net assets 1,116,288

Total liabilities and net assets \$ 1,152,288

See notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	64,282	(64,282)	-
Total revenue and support	1,276,394	43,191	1,319,585
EXPENSES			
Program	695,655	-	695,655
Development	184,400	-	184,400
Administration	145,822	-	145,822
Total expenses	1,025,877	-	1,025,877
OTHER INCOME (EXPENSE)			
Loss on disposal of assets	(8,368)	-	(8,368)
CHANGE IN NET ASSETS			
	242,149	43,191	285,340
Net assets at beginning of year	830,948	-	830,948
NET ASSETS AT END OF YEAR	\$ 1,073,097	\$ 43,191	\$ 1,116,288

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.
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from donors and grantors	\$ 1,259,231
Other cash receipts	11,414
Payments for salaries and related cost	(407,088)
Payments to vendors	<u>(497,170)</u>

Net cash provided by operating activities \$ 366,387

CASH FLOWS USED BY INVESTING ACTIVITIES

Purchases of fixed assets (99,735)

NET CHANGE IN CASH AND CASH EQUIVALENTS

266,652

Cash and cash equivalents at beginning of year

655,789

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 922,441

See notes to financial statements.

HEROES AND HORSES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 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, 2019, funds exceeded federally insured limits by \$597,611.

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, 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. 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.

In-Kind Contributions

The Organization records various types of in kind support, including professional services and supplies. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

In 2019, the Organization adopted the requirements in FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

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	
Cash and cash equivalents	\$ <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; the amount paid under this lease for 2019 was \$4,800. The Organization also leases a ranch for its program operations during the summer; the amount paid under this lease was \$12,000 for 2019.

4. NET ASSETS WITH DONOR RESTRICTIONS

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

Subject to expenditure for specific purpose:		
Adopt-a-Horse	\$ 5,404	
Programs	<u>37,787</u>	
		\$ <u>43,191</u>

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

5. SUBSEQUENT EVENTS

Economic Uncertainties

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively impact revenues, net income and cash flows in future years. All 2020 classes have been cancelled as a result of the pandemic. In April, 2020, the Organization received a Paycheck Protection Program (PPP) loan through the Small Business Administration (SBA) for \$64,100; the full amount of this loan was forgiven in October 2020.

Date of Management Evaluation

Management has evaluated subsequent events through October 30, 2020, the date on which the financial statements were available to be issued.