

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Financial Position
May 31, 2024

Assets

Current assets:

Cash and cash equivalents	\$ 648,326
Other receivable	30,518
Investments	541,236
Prepaid expenses	16,341
Merchandise inventories	542
Total current assets	<u>1,236,963</u>

Property and Equipment, net of accumulated depreciation	3,022,024
--	-----------

Noncurrent assets:

Beneficial interest in charitable trust	235,384
Investments	<u>3,021,157</u>

Total assets	<u><u>\$ 7,515,528</u></u>
--------------	----------------------------

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 39,153
Accrued expenses	<u>52,057</u>
Total current liabilities	<u>91,210</u>

Net assets:

Without donor restrictions	<u>7,424,318</u>
Total net assets	<u>7,424,318</u>

Total liabilities and net assets	<u><u>\$ 7,515,528</u></u>
----------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Activities
Year Ended May 31, 2024

	<u>Without Donor Restrictions</u>
Support and other revenue:	
Donations	\$ 2,136,453
Contributions of nonfinancial assets	50,976
Direct mail campaign fundraising, net of direct mail expenses of \$320,185	116,916
Fundraising event revenue, net of direct benefit to donors of \$14,612	55,607
Grants	67,975
Rental income	18,000
Interest and dividend income, net of fees	85,225
Realized and unrealized gain on investments	61,546
Other revenue	<u>2,450</u>
Total support and revenue	2,595,148
Expenses:	
Equine care and education	770,810
Management and general	525,243
Fundraising	<u>13,554</u>
Total expenses	<u>1,309,607</u>
Change in net assets	1,285,541
Net assets - beginning of year	<u>6,138,777</u>
Net assets - end of year	<u><u>\$ 7,424,318</u></u>

The accompanying notes are an integral part of these financial statements.

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Functional Expenses
Year Ended May 31, 2024

		<u>Supporting Services</u>		
	<u>Equine Care and Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 31,819	\$ 10,307	\$ 2,689	\$ 44,815
Bank charges		3,717		3,717
Computer expenses		3,520		3,520
Depreciation	137,487	137,487		274,974
Direct mailing expenses			320,185	320,185
Equipment lease		1,214		1,214
Insurance		31,350		31,350
Contributions of nonfinancial assets		51,976		51,976
Meals and entertainment		88		88
Office supplies and expenses		3,727		3,727
Postage and bulk mail		570		570
Professional services		91,675		91,675
Property taxes		182		182
Ranch maintenance and repairs	4,122			4,122
Ranch supplies	8,201			8,201
Rescued equine care	207,074			207,074
Special events			25,477	25,477
Subscription dues		12,517		12,517
Taxes and licenses		730		730
Telecommunications		6,352		6,352
Utilities	2,847	2,847		5,694
Vehicle expenses	24,420			24,420
Wages and benefits	322,994	151,997		474,991
Workers' compensation insurance	31,846	14,987		46,833
	<u>770,810</u>	<u>525,243</u>	<u>348,351</u>	<u>1,644,404</u>
Total expenses before adjustments				
Less expenses included with revenues on the statement of activities				
Cost of direct benefit to donors			(14,612)	(14,612)
Cost of direct mailing expenses			(320,185)	(320,185)
	<u></u>	<u></u>	<u></u>	<u></u>
Total expenses	<u>\$ 770,810</u>	<u>\$ 525,243</u>	<u>\$ 13,554</u>	<u>\$ 1,309,607</u>

The accompanying notes are an integral part of these financial statements.

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Cash Flows
Year Ended May 31, 2024

Cash flows from operating activities:	
Change in net assets	\$ 1,285,541
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	274,974
Realized and unrealized gain on investments	(61,546)
Changes in operating assets and liabilities:	
Receivables	(12,943)
Prepaid expenses	(11,066)
Accounts payable	(35,903)
Accrued expenses	12,099
Net cash used in operating activities	<u>1,451,156</u>
Cash flows from investing activities:	
Purchases of property and equipment	(85,139)
Purchases of investments and reinvested dividends	<u>(3,206,424)</u>
Net cash used in investing activities	<u>(3,291,563)</u>
Cash flows from financing activities:	
Principal repayments of note payable	<u>(10,675)</u>
Net cash used in financing activities	<u>(10,675)</u>
Net change in cash and cash equivalents	(1,851,082)
Cash and cash equivalents - beginning of year	<u>2,499,408</u>
Cash and cash equivalents - end of year	<u><u>\$ 648,326</u></u>

The accompanying notes are an integral part of these financial statements.

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Notes to Financial Statements
May 31, 2024

Note 1: Nature of Activities

Horsepower Sanctuaries, Inc. (the Sanctuary), is a nonprofit public benefit corporation. It does business under the name Redwings Horse Sanctuary (Redwings). Redwings opened in May of 1991 with an initial goal to end the senseless slaughter of equines (horses, ponies, donkeys, mules and burros) through rescue. Although efforts allowed Redwings to save many equines, the Sanctuary soon realized that adoption was only a short-term solution. In the fall of 1992, the scope was broadened to include education and permanent sanctuary. One hundred and seventy-five acres were leased from Big Sur Land Trust in Carmel, California and Redwings Horse Sanctuary was opened. Over the next several years, in addition to an on-site recreation center and outreach programs, Redwings developed several proactive programs designed to help horses within the community. In 2000, the Sanctuary was expanded with 160 acres being added in Lockwood, California. In 2002, the State took over the Carmel land and Redwings became fully established in Lockwood. In 2016, the Sanctuary purchased land in Paso Robles, California and relocated all sanctuary operations during 2021.

Note 2: Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Sanctuary considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Sanctuary held \$300,932 of cash equivalents as of May 31, 2024.

The Sanctuary has an agreement with a direct mail company to hold cash in an escrow account. Under this agreement, funds raised by the direct mail program are deposited directly into this account, then used to cover the costs associated with the direct mail activities. Every month the Sanctuary receives, from this account, a distribution based on the excess of funds raised over the fundraising costs. As of May 31, 2024, the Sanctuary's balance of cash in escrow was \$9,982, which is included in cash and cash equivalents on the accompanying statement of net position.

Change in Accounting Principle

Effective June 1, 2023, the Organization adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modified the measurement of expected credit losses on certain financial instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 are accounts and grants receivable. The adoption of Topic 326 did not have an impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Grants Receivable, Accounts Receivable, and Allowance for Credit Losses

At each reporting date, the Organization recognizes an expected allowance for credit losses on accounts and grants receivable under Topic 326. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and other factors deemed relevant by the Organization. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization's portfolio segments have remained constant since the Organization's inception.

The Organization writes off receivables when there is information that indicates the customer or donor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Organization's accounting policy election. At May 31, 2024, management believed that no allowance for credit losses was necessary.

Investments

The Sanctuary initially records marketable securities at acquisition cost if purchased and subsequently carries them at fair value. Donated investments are reported at fair value at the date of gift. Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold. Net unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Inventories

Inventories are stated at the lower of cost or market on a first in-first out basis.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation. Depreciation is calculated on the straight-line method over five to ten years for all fixed assets. The capitalization policy is to capitalize all fixed assets costing \$1,000 or more.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Beneficial Interest in Charitable Trust

The Sanctuary has a 5% interest in a charitable trust (the Trust) held by others. The Trust makes all decisions regarding the investment of Trust funds and makes quarterly distributions to the Sanctuary. The Trust invests primarily in common and preferred stocks, U.S. Government and corporate bonds, and fixed income/mutual funds. At May 31, 2024, the aggregate balance of the Sanctuary's beneficial interest in the Trust was \$235,384. This amount is included in net assets without donor restrictions, as the Sanctuary may use distributions for general and program operations. The Sanctuary may utilize distributed funds based upon an agreed upon spending policy for use of purposes consistent with their exempt status. Distributions for the year ended May 31, 2024 were approximately \$0.

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. For the year ended May 31, 2024, the Sanctuary had no net assets with donor restrictions.

The Sanctuary reports gifts of cash and other assets as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. The Sanctuary reports donor restricted gifts as revenues with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions when donor restrictions are satisfied. Gifts with restrictions that are satisfied within the same reporting period are recorded as contributions without donor restrictions.

Revenue and Revenue Recognition

The Sanctuary recognizes contribution revenue when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give at May 31, 2024.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Donated Materials and Services

The Sanctuary may receive donations of time and services from members of the community and volunteers which are recorded in the financial statements 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. Additionally, the Sanctuary occasionally receives donations of nonfinancial assets. In-kind donations of fixed assets, materials, and supplies are utilized directly by the Sanctuary in its programs and are valued at their appraised values at the time of the bequest. Donated professional services are utilized in the Sanctuary's management and administration and are valued at the standard hourly rates charged for those services. For the year ended May 31, 2024, professional service donations of \$12,568 and donations of auction items of \$38,409 are included in the statement of activities as contributions of nonfinancial assets.

Income Taxes

The Sanctuary is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. Annually, the Sanctuary files a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Management has determined the Sanctuary is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Leases

The Sanctuary rents out a residential unit located on its Paso Robles property under a short-term lease agreement. The determination of whether an arrangement is a lease is made at the lease's inception. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases* (Topic 842), the contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. The Sanctuary has elected the practical expedient for short-term leases with terms of 12 months or less. For short-term leases, the Sanctuary recognizes the lease income or expense in the statement of activities on a straight-line basis over the term of the lease. For the year ended May 31, 2024, the Sanctuary's lease income under short-term leases was \$18,000, which is included in rental income on the Statement of Activities.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred. For the year ended May 31, 2024, advertising expense totaled \$44,815.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The allocation of shared expenses is based on estimates of time and effort, an estimated use percentage, or on an estimated square-foot basis.

Fair Value Measurements

The Sanctuary records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of FASB ASC. This Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. This Topic also establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Sanctuary has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

This hierarchy requires the Sanctuary to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The following is a description of the valuation methodologies used for assets measured at fair value:

Common Stock and Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded using Level 1 inputs.

Certificates of Deposit: recorded at amortized cost plus accrued interest, which approximates fair value based upon observable market inputs for similar securities, including valuation models based upon prices paid for similar assets with similar yields from issuers with similar credit ratings and are included in Level 2.

Beneficial Interest in Charitable Trust and Fixed Income Annuities: Valued using Level 2 inputs derived by observable market data.

The following sets forth by level, within the fair value hierarchy, the Sanctuary's assets at fair value at May 31, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Common stock	\$ 171,809	\$	\$	\$ 171,809
Certificates of deposit		200,039		200,039
Equity mutual funds	55,510			55,510
Bond mutual funds	113,878			113,878
Fixed income annuities		3,021,157		3,021,157
Beneficial interest in charitable trust		235,384		235,384
Total	<u>\$ 341,197</u>	<u>\$ 3,456,580</u>	<u>\$ -</u>	<u>\$ 3,797,777</u>

Investment-related income or losses (including gains and losses on investments, interest, and dividends) are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 2: Summary of Significant Accounting Policies (Continued)

Concentrations

Major Funding:

The Sanctuary received a bequest from one donor, which accounted for approximately 46% of total revenues during the year ended May 31, 2024.

Credit Risk:

The Sanctuary maintains cash balances in financial institutions located in California. Interest bearing accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of May 31, 2024 the Sanctuary had cash balances in excess of the FDIC insurance limit of \$99,346.

Note 3: Investments

At May 31, 2024 investments that are measured at fair value on a recurring basis consisted of the following:

Common stock	\$ 407,193
Certificates of deposit	200,039
Fixed income annuities	3,021,157
Mutual funds:	
Equity funds	55,510
Bond funds	<u>113,878</u>
	<u>\$ 3,797,777</u>

The Sanctuary had realized and unrealized gains of \$61,546 on its investments for the year ended May 31, 2024.

The estimated fair value of \$503,554 of the fixed income annuities at June 30, 2024, by contractual maturity, are due in 2029. The estimated fair value of \$2,517,603 of the fixed income annuities at June 30, 2024, by contractual maturity, are due in 2031.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2024

Note 4: Property and Equipment

At May 31, 2024, property and equipment consisted of the following:

Land	\$ 1,105,346
Vehicles	136,398
Office furniture and equipment	19,599
Machinery and equipment	341,341
Land improvements	1,294,972
Solar project	72,929
Barns	476,288
Buildings	550,126
Construction in process	19,360
Subtotal	<u>4,016,359</u>
Less accumulated depreciation and amortization	<u>(994,335)</u>
Property and equipment, net of accumulated depreciation and amortization	<u>\$ 3,022,024</u>

Depreciation expense for the year ended May 31, 2024 was \$ 274,974.

Note 5: Liquidity and Availability

The following reflects the Sanctuary's financial assets available within one year of the financial statement date. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the financial statement date.

Cash and cash equivalents	\$ 347,394
Current Investments	541,236
Other receivable	30,518
	<u>\$ 919,148</u>

The Sanctuary is substantially supported by donations received from the general public. The Sanctuary also applies for grants to supplement donations received, which are generally restricted to specific program expenses. Due to the nature of the Sanctuary's programs, restrictions on grants are generally met within one year of receiving the grants. As part of its liquidity management, the Sanctuary has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Sanctuary invests excess cash in short-term investments.