

***Horsepower Sanctuaries, Inc.***  
***dba Redwings Horse Sanctuary***  
***Statement of Financial Position***  
***May 31, 2022 and 2021***

<b><i>ASSETS</i></b>	<b><i>2022</i></b>	<b><i>2021</i></b>
<b><i>Current Assets</i></b>		
Cash and cash equivalents	\$ 2,731,326	2,698,396
Prepays	6,754	-
Other assets	617	617
	2,738,697	2,699,013
 <b><i>Property and Equipment</i></b> , net of accumulated depreciaton		
Land	1,105,346	1,105,346
Land improvements	1,317,582	1,085,541
Buildings and improvements	550,127	762,139
Barns	380,295	345,013
Wells and pipes	210,772	159,124
Vehicles	129,498	119,498
Machinery and equipment	83,056	57,235
Office furniture and equipment	19,599	13,700
Construction in progress	98,157	98,157
	3,894,432	3,745,753
Less accumulated depreciation	447,012	185,425
	3,447,420	3,560,328
 <b><i>Other Assets</i></b>		
Investments	368,725	28,821
Beneficial interest in charitable trust held by others	277,289	287,995
	646,014	316,816
	\$ 6,832,131	\$ 6,576,157

*See Notes to Financial Statements.*

<b><i>LIABILITIES AND NET ASSETS</i></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b><i>Current Liabilities</i></b>		
Current portion of long-term debt	\$ 5,124	\$ -
Accounts payable	89,169	33,674
Accrued payroll	6,698	5,629
Accrued vacation and employee benefits	29,910	29,991
Security deposit	1,500	1,500
	<u>132,401</u>	<u>70,794</u>
 <b><i>Note Payable, less current portion</i></b>	 <u>10,675</u>	 <u>77,470</u>
 <b><i>Net Assets</i></b>		
Without donor restrictions	6,689,055	6,427,893
With donor restrictions	-	-
	<u>6,689,055</u>	<u>6,427,893</u>
	 <u>\$ 6,832,131</u>	 <u>\$ 6,576,157</u>

**Horsepower Sanctuaries, Inc.**  
**dba Redwings Horse Sanctuary**  
**Statement of Activities**  
**For the Years Ended May 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b><i>Net assets without donor restrictions:</i></b>		
Donations	\$ 1,030,226	\$ 399,358
Grants	107,000	6,163
In-kind donations	-	60,058
Rental income	18,000	16,500
Interest and dividend income	10,922	15,054
Loss on disposal of assets	-	(14,108)
Net realized and unrealized gain (loss) on investments	(170,824)	45,086
Other income	78,226	-
	<u>1,073,550</u>	<u>528,111</u>
Special Events	52,023	-
Expenses	(24,208)	-
	<u>27,815</u>	<u>-</u>
Direct mail campaign fundraising	420,155	428,193
Direct mail expenses	(283,453)	(284,357)
	<u>136,702</u>	<u>143,836</u>
Total income without donor restrictions	1,238,067	671,947
Net assets released from restrictions	80,000	390,000
Total support without donor restrictions	<u>1,318,067</u>	<u>1,061,947</u>
<b><i>Expenses:</i></b>		
Program expenses	475,302	510,657
Management and general expenses	578,763	421,190
Fundraising expenses	2,840	489
Total expenses	<u>1,056,905</u>	<u>932,336</u>
Increase in net assets without donor restrictions	<u>261,162</u>	<u>129,611</u>
<b><i>Net assets with donor restrictions:</i></b>		
Donations	80,000	140,000
Net assets released from restrictions	(80,000)	(390,000)
Increase (decrease) in net assets with donor restrictions	<u>-</u>	<u>(250,000)</u>
<b><i>Change in net assets</i></b>	<b>261,162</b>	<b>(120,389)</b>
<b><i>Net assets, beginning of year</i></b>	<b>6,427,893</b>	<b>6,548,282</b>
<b><i>Net assets, end of year</i></b>	<b>\$ 6,689,055</b>	<b>\$ 6,427,893</b>

See Notes to Financial Statements.

**Horsepower Sanctuaries , Inc.**  
**dba Redwings Horse Sanctuary**  
**Statement of Functional Expenses**  
**For the Years Ended May 31, 2022 & 2021**

	<b>2022</b>			
	<b>Program Expenses</b>	<b>Management and General</b>	<b>Fund- raising</b>	<b>Total</b>
Advertising	\$ 32,944	\$ 10,700	\$ 2,840	\$ 46,484
Auto expense	29,101	-	-	29,101
Bank charges	-	3,284	-	3,284
Depreciation	6,777	254,810	-	261,587
Dues and subscriptions	-	2,237	-	2,237
Equine care	130,840	-	-	130,840
Insurance	-	90,174	-	90,174
Meals and entertainment	-	356	-	356
Miscellaneous	-	5,991	-	5,991
Office supplies and expenses	-	16,527	-	16,527
Payroll taxes	21,566	10,149	-	31,715
Postage and bulk mail	-	2,055	-	2,055
Professional and legal services	-	55,964	-	55,964
Ranch supplies	6,555	-	-	6,555
Rent	-	-	-	-
Repairs and maintenance	2,401	-	-	2,401
Salaries and wages	239,119	112,527	-	351,646
Taxes	425	150	-	575
Telephone	-	9,060	-	9,060
Travel	795	-	-	795
Utilities	4,779	4,779	-	9,558
	<b>\$ 475,302</b>	<b>\$ 578,763</b>	<b>\$ 2,840</b>	<b>\$ 1,056,905</b>

*See Notes to Financial Statements.*

**2021**

	<b><i>Program Expenses</i></b>	<b><i>Management and General</i></b>	<b><i>Fund- raising</i></b>	<b><i>Total</i></b>
Advertising	\$ 17,334	\$ 10,667	\$ 489	\$ 28,490
Auto expense	32,349	-	-	32,349
Bank charges	-	2,069	-	2,069
Depreciation	-	25,055	-	25,055
Dues and subscriptions	-	4,446	-	4,446
Equine care	134,297	-	-	134,297
Insurance	-	69,607	-	69,607
Miscellaneous	4,034	1,929	-	5,963
Office supplies and expenses	-	13,996	-	13,996
Payroll taxes	30,330	14,550	-	44,880
Postage and bulk mail	-	1,609	-	1,609
Professional and legal services	-	141,617	-	141,617
Ranch supplies	6,063	-	-	6,063
Rent	27,500	-	-	27,500
Repairs and maintenance	4,800	707	-	5,507
Salaries and wages	237,801	115,187	-	352,988
Taxes	4,667	622	-	5,289
Telephone	-	8,550	-	8,550
Travel	902	-	-	902
Utilities	10,580	10,579	-	21,159
	<b><u>\$ 510,657</u></b>	<b><u>\$ 421,190</u></b>	<b><u>\$ 489</u></b>	<b><u>\$ 932,336</u></b>

**Horsepower Sanctuaries, Inc.**  
**dba Redwings Horse Sanctuary**  
**Statement of Cash Flows**  
**For the Years Ended May 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b><i>Cash flows from operating activities:</i></b>		
Change in net assets	\$ 261,162	\$ (120,389)
<b><i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i></b>		
Depreciation	261,587	25,055
Contribution of fixed assets	-	(50,000)
Gain on disposal of assets	-	14,108
Contribution of investments	-	(5,058)
Gain on forgiveness of PPP loan	(77,470)	-
Net (gain)/loss on investments	170,824	(45,086)
<b><i>Changes in operating assets and liabilities:</i></b>		
Donations receivable	-	1,319,806
Prepays and other assets	3,952	(44,483)
Accounts payable	55,495	32,174
Accrued expenses	988	(46,121)
Net cash provided by operating activities	676,538	1,080,006
<b><i>Cash flows used in investing activities:</i></b>		
Net purchase in investments	(510,728)	44,393
Purchase of property and equipment	(148,679)	(1,494,218)
Net cash used in investing activities	(659,407)	(1,449,825)
<b><i>Cash flows from financing activities:</i></b>		
Proceeds from issuance of note payable	15,799	-
Proceeds from issuance of PPP loan	-	77,470
Net cash provided financing activities	15,799	77,470
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	32,930	(292,349)
<b><i>Cash and cash equivalents at beginning of year</i></b>	2,698,396	2,990,745
<b><i>Cash and cash equivalents at end of year</i></b>	\$ 2,731,326	\$ 2,698,396

*See Notes to Financial Statements.*

***Supplemental disclosure of cash flow information:***

***Noncash investing activities***

Reinvestment of certificates of deposit from maturity  
of certificates of deposit

\$ 1,546,058

\$ 1,533,272

***Horsepower Sanctuaries, Inc.  
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***Notes to Financial Statements***

***Note 1. Summary of Significant Accounting Policies***

***Nature of services provided:***

The entity is a not-for-profit organization whose mission is to rescue equines (horses, ponies, donkeys, mules, and burros) from abuse and neglect. The Organization achieves its goals through education of the public, foster care, and providing a permanent sanctuary. The Organization operated a facility on 160 acres located in Lockwood, California. In 2016, the Organization purchased land in Paso Robles, California, and relocated all sanctuary operations during 2021.

***Basis of accounting:***

Assets and liabilities, and revenue and expenses are recognized on the accrual basis of accounting.

***Use of estimates:***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue recognition:***

Contributions and grants are recognized as revenue when they are received or unconditionally pledged.

***Basis of presentation:***

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

*Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.



## *Notes to Financial Statements*

### ***Income taxes:***

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California. Since the Organization is exempt from income tax liability, no provision is made for current or deferred tax expense. Annual income returns filed with Federal and state governments use the same accounting methods as those used for financial reporting. The Organization is no longer subject to Federal or state government tax authorities' examinations for the years before 2018 and 2017, respectively.

### ***Cash and cash equivalents:***

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of purchase to be cash equivalents.

### ***Property and equipment:***

Donations of property and equipment are recorded as support at their estimated fair value. Purchased assets are recorded at cost. The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u><i>Years</i></u>
Land improvements	5 - 15
Buildings	39
Building improvements	10 - 39
Barns	10
Wells and pipes	10
Vehicles	5 - 10
Machinery and equipment	5 - 10
Office furniture and equipment	5 - 7

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Depreciation expense for the years ended May 31, 2022 and 2021 was \$261,587 and \$25,055, respectively.

### ***Investments:***

Investments with readily determinable fair values are stated at fair value. Unrealized gains (losses) are included in the change in net assets without donor restrictions in the accompanying statements of activities. Donated investments are reported by the Organization at the fair value on the date of donation.

## *Notes to Financial Statements*

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that the changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

### ***Contributions:***

The Organization receives contributions and grants from different public sources, including individuals, businesses, and community organizations, concentrated in the Central Coast California area.

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions having donor stipulations that are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions. Contributions that are originally restricted by the donor and for which the restriction is met in a subsequent time period are recorded as revenue with donor restrictions in the year received and then released from restrictions in a subsequent time period.

Donations of property and equipment are reported as net assets without donor restrictions 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 net assets with donor restrictions. If the donor does not stipulate how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

### ***Advertising:***

Advertising costs are expensed as incurred. For the years ended May 31, 2022 and 2021 advertising expense was \$46,484 and \$28,490, respectively

### ***Functional allocation of expenses:***

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses incurred for the Organization's programs are charged directly to the applicable program if able to be identified. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Accordingly, these costs have been allocated among the programs and supporting services benefitted based on management's estimate, which are allocated on the basis of time records and utilization estimates.

## *Notes to Financial Statements*

### ***Donated materials and services:***

Donated construction in progress of \$-0- and \$55,058 was recognized as in-kind revenue for the year ended May 31, 2022 and 2021, respectively. The Organization also received \$-0- and \$5,000 in supplies and materials during the years ended May 31, 2022 and 2021, respectively. These donations eliminated the need to purchase assets, supplies and materials that were necessary for program services and are reflected in the statements of activities and functional expenses.

A substantial number of volunteers donate significant amounts of time to the Organization's program efforts throughout the year. The Board of Directors also volunteer their time spent at quarterly board meetings. No amounts have been reflected in the financial statements for donated volunteer services since no objective basis is available to measure the value of such services.

### ***Note 2. Cash and Cash Equivalents***

Cash and cash equivalents consisted of the following at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Checking account	\$ 835,747	\$ 307,074
Savings account	342,414	836,084
Certificates of deposits, less than 3 month maturity	1,546,058	1,538,449
Cash in escrow	6,573	16,290
Petty cash	534	499
	<u>\$ 2,731,326</u>	<u>2,698,396</u>

The Organization maintains bank accounts with multiple financial institutions. The FDIC amount of coverage is up to \$250,000. The Organization had amounts in excess of the FDIC coverage at May 31, 2022 and 2021.

### ***Note 3. Availability and Liquidity***

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,731,326	\$ 2,698,396
Investments	368,725	28,821
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,100,051</u>	<u>2,727,217</u>

## *Notes to Financial Statements*

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

### **Note 4. Other Assets**

Investments consisted of the following at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Common stock	\$ 23,070	\$ 23,070
Exchange Traded Funds and mutual funds	345,655	5,751
Total investments	<u>368,725</u>	<u>28,821</u>
Equities (beneficial interest in charitable remainder trust)	277,289	287,995
	<u>\$ 646,014</u>	<u>\$ 316,816</u>

### **Note 5. Fair Value Measurements**

The FASB defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its financial instruments based on the fair value hierarchy established by the FASB, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value: Level 1 – Values are based upon quoted prices in active markets for identical assets or liabilities; Level 2 – Values are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities; Level 3 – Values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable. Determination of the fair value requires significant management judgment or estimation.

*Equities (common stock, mutual funds, and exchange traded funds):* Valued at the closing price reported on the active market on which the individual securities are traded.

*Equities (beneficial interest in charitable trust held by others):* Valued at the closing price reported on the active market on which the individual securities are traded.

The asset or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

*Notes to Financial Statements*

	<i>May 31, 2022</i>			
	<i>Fair Value</i>	<i>Fair Value Measurements Using:</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Common stock	\$ 23,070	\$ 23,070	\$ -	\$ -
Exchange traded funds and mutual funds	345,655	345,655	-	-
Equities (beneficial interest)	277,289	277,289	-	-
<b><i>Total assets at fair value</i></b>	<b>\$ 646,014</b>	<b>\$ 646,014</b>	<b>\$ -</b>	<b>\$ -</b>

	<i>May 31, 2021</i>			
	<i>Fair Value</i>	<i>Fair Value Measurements Using:</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Common/collective trusts	\$ 23,070	\$ 23,070		
Mutual funds	5,751	5,751		
Equities (beneficial interest)	287,995	287,995	-	-
<b><i>Total assets at fair value</i></b>	<b>\$ 316,816</b>	<b>\$ 316,816</b>	<b>\$ -</b>	<b>\$ -</b>

***Note 6. Long-Term Debt***

During 2020, the Organization received loan proceeds in the amount of \$77,470 under the Paycheck Protection Program (PPP), from Coast Hills Bank as part of the Coronavirus Aid, Relief and Economic Securities Act (CARES Act) as administered and guaranteed by the United States Small Business Administration (SBA). Under the PPP, the loan balance and accrued interest may be forgiven if the borrower uses the loan proceeds for eligible purposes during a specified time frame following the date of the loan disbursement. Any unforgiven portion of the PPP loan would be payable over two years at an interest rate of 1%. The loan is unsecured and did not require any guarantees. Subsequent to year-end, in June 2021, the SBA notified the Organization the entire loan balance of \$77,470 was forgiven as authorized by the CARES Act and is recognized as other income during the year ended May 31, 2022.

During the year ended May 31, 2022 the Organization financed the purchase of a forklift from the Kubota corporation. The Organization received a 48-month, 0% interest loan due in monthly installment amounts of \$427. The outstanding balance at May 31, 2022 is \$15,799.

Aggregate maturities of the note payable at May 31, 2022 are as follows:

<b><u>Years ending May 31,</u></b>	
2023	\$ 5,124
2024	5,124
2025	5,124
2026	427
	<b>\$ 15,799</b>

## *Notes to Financial Statements*

### ***Note 7. Net Assets with Donor Restrictions***

The Organization normally receives grants and donations that are restricted to program expenses of a certain nature. Net assets with donor restrictions at May 31, 2022 and 2021 was \$-0-, respectively.

### ***Note 8. Direct Mail Campaign***

The Organization utilizes the services of a third-party company to solicit donations from the public using a direct mailing technique. Letters are composed by the third-party company and then distributed to individuals on purchased mailing lists. The contributions and related expenses have been recorded as direct mail campaign fundraising in the statements of activities.

### ***Note 9. Concentrations***

During the year ended May 31, 2022, four donors comprised approximately 43% and during the year ended May 31, 2021, two donors comprised approximately 37% of the Organization's total donations.

### ***Note 10. Commitments***

The Organization leased a ranch facility from an honorary board member in Lockwood, California. which expired September 30, 2020 and was rented on a month-to-month thereafter until May 2021, following the Organization's move to their new facilities in summer 2021. The lease was not renewed. During the year ended May 31, 2022 and 2021 the lease expense was \$-0- and \$30,000, respectively.

### ***Note 11. Retirement Contributions***

The Organization makes retirement contributions for employees who meet certain eligibility requirements. Per the agreements, employees may also make elective contributions up to the maximum amount allowed by the Internal Revenue Code. The contribution made for the years ended May 31, 2022 and 2021 was \$4,800.

### ***Note 12. Subsequent Events***

The Organization has evaluated events and transactions subsequent to May 31, 2022 through April 15, 2023, the date of the independent auditors' report, noting no other significant items requiring further discussion.