

**Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary**

Financial Statements

Years Ended May 31, 2015 and 2014

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Table of Contents

	Page
Independent Auditors' Report	3-4
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to Financial Statements	9-15



GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Horsepower Sanctuaries, Inc. dba Redwings Horse Sanctuary

We have audited the accompanying financial statements of Horsepower Sanctuaries, Inc. dba Redwings Horse Sanctuary (a nonprofit organization), which comprise the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Managements' 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 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 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 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors

Horsepower Sanctuaries, Inc. dba Redwings Horse Sanctuary

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horsepower Sanctuaries, Inc. dba Redwings Horse Sanctuary as of May 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.

Prior Period Financial Statements

The financial statements of Horsepower Sanctuaries, Inc. dba Redwings Horse Sanctuary as of May 31, 2014, were audited by other auditors whose report dated January 14, 2015, expressed an unmodified opinion on those statements.

A handwritten signature in blue ink that reads "Glenn Burdette Attest Corporation". The signature is written in a cursive, somewhat stylized font.

Glenn Burdette Attest Corporation
San Luis Obispo, California

December 22, 2015

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statements of Financial Position
May 31, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,680,878	\$ 116,123
Investments	1,433,578	726,776
Receivables	303	3,401
Merchandise inventory	3,093	5,225
Prepaid expenses	8,192	15,114
Cash in escrow	47,338	62,287
Total current assets	3,173,382	928,926
Property and equipment, net of accumulated depreciation	64,359	76,619
Total assets	\$ 3,237,741	\$ 1,005,545
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 30,212	\$ 48,168
Accrued expenses	12,117	17,645
Total current liabilities	42,329	65,813
Net assets:		
Unrestricted	3,185,412	939,732
Temporarily restricted	10,000	
Total net assets	3,195,412	939,732
Total liabilities and net assets	\$ 3,237,741	\$ 1,005,545

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

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statements of Activities
Years Ended May 31, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Support and other revenue:				
Donations	\$ 3,225,971	\$	\$ 3,225,971	\$ 935,972
Grants	14,000	10,000	24,000	10,850
Sponsorships	1,330		1,330	13,175
In-kind donated good and services	3,417		3,417	4,330
Interest dividends	15,796		15,796	12,539
Unrealized gain (loss) on investments	(8,237)		(8,237)	19,388
Other revenue	13,587		13,587	18,199
	<u>3,265,864</u>		<u>3,275,864</u>	<u>1,014,453</u>
Total support and revenue		10,000		
Expenses:				
Equine care and education	701,020		701,020	763,154
Management and general	155,265		155,265	145,272
Fundraising	163,899		163,899	218,030
	<u>1,020,184</u>		<u>1,020,184</u>	<u>1,126,456</u>
Total expenses				
Change in net assets	2,245,680	10,000	2,255,680	(112,003)
Net assets - beginning of year	<u>939,732</u>	<u>-</u>	<u>939,732</u>	<u>1,051,735</u>
Net assets - end of year	<u>\$ 3,185,412</u>	<u>\$ 10,000</u>	<u>\$ 3,195,412</u>	<u>\$ 939,732</u>

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

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Functional Expenses
Years Ended May 31, 2015 and 2014

	<u>Equine Care and Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2015 Total</u>	<u>2014 Total</u>
Salaries and related expenses:					
Wages	\$ 171,281	\$ 89,297	\$	\$ 260,578	\$ 236,099
Workers' compensation insurance	50,559			50,559	53,810
Payroll taxes	14,013	8,525		22,538	21,863
Total salaries and related expenses	<u>235,853</u>	<u>97,822</u>	-	<u>333,675</u>	<u>311,772</u>
Other expenses before depreciation:					
Postage and bulk mail	78,235	9,036	65,947	153,218	202,311
Rescued equine care	146,347			146,347	139,813
Printing	42,623	6,109	36,168	84,900	114,572
Computer expenses	40,666	3,806	30,864	75,336	101,988
Professional services	25,343	20,497	20,783	66,623	85,728
Public relations and marketing	15,601	540	10,038	26,179	23,247
Rent	26,796			26,796	26,796
Vehicle expenses	16,189	355		16,544	22,831
Insurance	14,014			14,014	11,336
Ranch supplies	7,785			7,785	6,249
Office supplies and expenses	6,188	1,426		7,614	11,524
Utilities	6,936			6,936	7,694
Moving expenses		5,700		5,700	
Telecommunications	2,599	2,570		5,169	5,785
Advertising	3,994	679	99	4,772	6,054
Waste disposal	4,502			4,502	4,566
Property taxes	3,436			3,436	3,293
In-kind donated goods and services	1,082			1,082	4,330
Subscription dues	2,325	937		3,262	4,022
Bank charges	713	1,589		2,302	2,183
Equipment lease		2,098		2,098	2,755
Ranch maintenance and repairs	1,202	46		1,248	3,921
Education	24	27		51	670
Miscellaneous					344
Total expenses before depreciation	<u>682,453</u>	<u>153,237</u>	<u>163,899</u>	<u>999,589</u>	<u>1,103,784</u>
Depreciation	<u>18,567</u>	<u>2,028</u>		<u>20,595</u>	<u>22,672</u>
Total expenses	<u>\$ 701,020</u>	<u>\$ 155,265</u>	<u>\$ 163,899</u>	<u>\$ 1,020,184</u>	<u>\$ 1,126,456</u>

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

Horsepower Sanctuaries, Inc.
dba Redwings Horse Sanctuary
Statement of Cash Flows
Years Ended May 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,255,680	\$ (112,003)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,595	22,672
Unrealized (gain) loss on investments	8,237	(19,388)
Donations of property and equipment	(2,335)	
Changes in operating assets and liabilities:		
Receivables	3,098	24,668
Merchandise inventory	2,132	(5,225)
Prepaid expenses	6,922	(4,328)
Cash in escrow	14,949	47,463
Accounts payable	(17,956)	(3,845)
Accrued expenses	(5,528)	3,027
	<u>2,285,794</u>	<u>(46,959)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	200,000	
Purchases of property and equipment	(6,000)	(2,236)
Reinvested dividends	(15,039)	(12,263)
Purchases of investments	(900,000)	(231,000)
	<u>(721,039)</u>	<u>(245,499)</u>
Net cash used in investing activities		
Net change in cash and cash equivalents	1,564,755	(292,458)
Cash and cash equivalents - beginning of year	<u>116,123</u>	<u>408,581</u>
Cash and cash equivalents - end of year	<u>\$ 1,680,878</u>	<u>\$ 116,123</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, 2015 and 2014

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 began 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.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, which recognizes all revenue as income when earned and operating expenses as deductions from income when incurred. The Sanctuary reports information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted.

Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with generally accepted accounting principles. The net assets, revenues, gains and losses, other support and expenses, and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Sanctuary and changes therein are classified as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for endowment and other purposes.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Sanctuary and/or the passage of time. The Sanctuary had no temporarily restricted net assets as of May 31, 2014.

Note 2: Summary of Significant Accounting Policies (Continued)

- **Permanently Restricted Net Asset** – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Sanctuary. Generally, the donors of these assets permit the Sanctuary to use all or a part of the income earned on related investments for general or specific purposes. The Sanctuary had no permanently restricted net assets as of May 31, 2015 and 2014.

Contributions

In accordance with the Not for Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Donor-restricted contributions and grants whose restrictions are met in the same year are reported as unrestricted support. The Sanctuary also receives grants which are accounted for like contributions and has reported as either unrestricted or temporarily restricted revenues based on grantor-imposed limitations on the use of the assets.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "Net assets released from restriction."

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.

Accounts Receivable

Amount is for contributions receivable at year end. Management believes amounts will be collected within one year.

Inventories

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

Note 2: Summary of Significant Accounting Policies (Continued)

Cash in Escrow

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, an amount based on the excess of funds raised over the fundraising costs.

Concentrations

Major Funding:

The Sanctuary received a bequest from one donor, which accounted for approximately 67% of total revenues during the year ended May 31, 2015.

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, 2015 and 2014, the Sanctuary had cash balances in excess of the FDIC insurance limit of \$1,477,156 and \$226,654, respectively.

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 Financial Accounting Standards Board Accounting Standards (FASB) Codification (the Topic). 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. The Topic also establishes a three-tier hierarchy, as follows, 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 Organization has the ability to access.

Note 2: Summary of Significant Accounting Policies (Continued)

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.

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 Organization 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:

Investments: Investments in marketable securities with readily determinable fair values are reported at fair value based on quoted market prices in active markets (all Level 1 inputs - see Note 3). Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law.

Income Taxes

The Sanctuary is recognized by the Internal Revenue Service as a qualified section 501(c)(3) non-profit organization, and as such, is not liable for Federal income and State franchise tax. However, the Sanctuary remains subject to taxes on any net income that is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose with certain exclusions. No income taxes have been recorded in the accompanying financial statements since management believes the Sanctuary has no taxable unrelated business income.

Income Taxes Topic of FASB ASC requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of May 31, 2015, management has considered its tax positions and believes that the Sanctuary did not maintain any tax positions that did not meet the "more likely than not" threshold. The Sanctuary does not expect any material changes through May 31, 2016. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after May 31, 2012, and by the California Franchise Tax Board for fiscal years ending on or after May 31, 2011. As noted above, the Sanctuary does not currently pay income taxes.

Note 2: Summary of Significant Accounting Policies (Continued)

Donated Goods and Services

The Sanctuary receives donations of time and services from members of the community and volunteers. The value of these donations is not reflected in the accompanying financial statements since no objective basis is available to measure the value of these services. In-kind donations of property and equipment and supplies used directly by the Sanctuary are valued at their appraised values at the time of the gift. The Sanctuary records the amount of contributed services, specialized skills that would typically be purchased if not provided by donation, as revenue in the period received. The value of donated goods and services included in the financial statements was \$3,417 and \$4,330 as of May 31, 2015 and 2014, respectively.

Functional Allocation of Expenses

The costs of providing program services and other activities have been presented on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

Preparation of the 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 of assets and liabilities and disclosures as of the date of the financial statements. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation

Subsequent Events

Events subsequent to May 31, 2015 have been evaluated through December 22, 2015, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that require disclosure.

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2015 and 2014
Page 6

Note 3: Investments

At May 31, 2015 and 2014, investments that are measured at fair value on a recurring basis consisted of the following:

	Level 1	
	2015	2014
Assets		
Cash pending investment	\$ 252,139	\$ 122
Mutual funds	518,439	526,676
Certificates of deposit	663,000	199,978
	<u>663,000</u>	<u>199,978</u>
Total	<u>\$ 1,433,578</u>	<u>\$ 726,776</u>

The Sanctuary had investment returns of \$15,039 and \$12,263 for the years ended May 31, 2015 and 2014, respectively.

Note 4: Property and Equipment

Fixed assets 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 \$400 or more.

At May 31, 2015 and 2014, property and equipment consisted of the following:

	2015	2014
Vehicles	\$ 73,418	\$ 71,083
Office furniture and equipment	47,100	47,100
Machinery and equipment	52,132	46,132
Land improvements	191,513	191,513
Leasehold improvement	48,652	48,652
Barns	49,357	49,357
Subtotal	<u>462,172</u>	<u>453,837</u>
Less accumulated depreciation	<u>(397,813)</u>	<u>(377,218)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 64,359</u>	<u>\$ 76,619</u>

Horsepower Sanctuaries, Inc.
Notes to Financial Statements
May 31, 2015 and 2014
Page 7

Note 5: Lease Commitments

The Sanctuary leases facilities from an honorary board member under a five year ground lease, which expires on September 30, 2020. The lease calls for monthly rental payments of \$2,500 through September 30, 2020.

At May 31, 2015, future minimum rental payments are as follows:

<u>For the Year Ending May 31,</u>	
2016	\$ 30,000
2017	30,000
2018	30,000
2019	30,000
2020	30,000
Thereafter	<u>10,000</u>
Total	<u>\$ 160,000</u>

Note 6: Direct Mail Campaign

For the year ended May 31, 2015 and 2014, Horsepower Sanctuaries, Inc. DBA, Redwings Horse Sanctuary worked with Fundraising Strategies, Inc. to educate the public and solicit donations using a direct mailing technique. Letters are composed by Fundraising Strategies, Inc. and then distributed to individuals whose names appear on purchased mailing lists. The Sanctuary approves all letters and disbursements. The Sanctuary employed Direct Mail Processors, Inc. during the current year to receive and deposit all donations generated by this method.

For the year ended May 31, 2015 and 2014 expenses related to the direct mail campaign totaled \$349,236, or 57% and \$473,235, or 67%, respectively, of the total direct mail campaign contribution revenue. Net contributions received from this fundraising operation were \$259,350 and \$234,890 for the years ended May 31, 2015 and 2014, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

Since the goals of the Sanctuary's direct mail campaign are both educational and fundraising in nature, the costs of conducting these campaigns are considered joint costs that are not directly attributable to either the program or the fundraising component of the activities. Those joint costs are allocated as follows for the years ended May 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Program services	\$ 181,603	\$ 246,083
Management and general	13,969	18,929
Fundraising	<u>153,664</u>	<u>208,223</u>
	<u>\$ 349,236</u>	<u>\$ 473,235</u>