Giant Steps Therapeutic Equestrian Center, Inc.

Consolidated Financial Statements

Eighteen months ended June 30, 2019

PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

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Independent Auditor's Report

To the Board of Directors
Giant Steps Therapeutic Equestrian Center, Inc.
Petaluma, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Giant Steps Therapeutic Equestrian Center, Inc. (the "Center"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the eighteen months then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Center'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 consolidated financial statements.

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Giant Steps Therapeutic Equestrian Center, Inc. as of June 30, 2019, and the results of its activities and changes in net assets and its cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Pisenti & Brinker LLP

Petaluma, California
March 9, 2020

Consolidated Statement of Financial Position

		June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	$	642,728
Accounts receivable		7,116
Pledges receivable		2,000
Prepaid expenses		5,570
Total current assets		657,414
Non-current assets		
Long-term pledges receivable		6,000
Investments		1,224,685
Property, equipment and improvements, net		505,131
Total non-current assets		1,735,816
Total assets	$	2,393,230
Liabilities and net assets		
Current liabilities		
Accounts payable	$	9,107
Accrued liabilities		1,569
Accrued vacation		30,579
Total current liabilities		41,255
Net assets		
Without donor restrictions		1,941,299
With donor restrictions		410,676
Total net assets		2,351,975
Total liabilities and net assets	$	2,393,230

Consolidated Statement of Activities

For the Eighteen Months Ended June 30, 2019

	Without Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Contributions	$ 892,987	$ 200,994	$ 1,093,981
Program fees, net of scholarship	200,737	-	200,737
Income from fundraising activities	108,756	-	108,756
In-kind services and goods	61,566	-	61,566
Investment income, net	15,505	-	15,505
Loss on sale and disposal of property and equipment	(5,383)	-	(5,383)
Total revenues and gains	1,274,168	200,994	1,475,162
Net assets released from restrictions:			
Satisfaction of purpose restrictions	456,723	(456,723)	-
Satisfaction of time restrictions	16,252	(16,252)	-
Total revenue, gains and other support	1,747,143	(271,981)	1,475,162
Expenses			
Program services	1,056,987	-	1,056,987
General and administrative	162,840	-	162,840
Fundraising	319,770	-	319,770
Total expenses	1,539,597	-	1,539,597
Change in net assets	207,546	(271,981)	(64,435)
Net assets at beginning of period	2,067,290	349,120	2,416,410
Reclassification of net assets restricted by purpose	(309,285)	309,285	-
Reclassification of net assets restricted by time	(24,252)	24,252	-
Net assets at beginning of period, reclassified	1,733,753	682,657	2,416,410
Net assets at end of period	$ 1,941,299	$ 410,676	$ 2,351,975

	Program Services	General and Administrative	Fundraising	Total
Payroll and payroll taxes	$ 491,587	$ 76,741	$ 143,331	$ 711,659
Facility and horse management	174,510	-	-	174,510
Legal and professional	66,690	39,831	5,100	111,621
Depreciation expense	94,196	10,416	1,097	105,709
Insurance	88,431	294	7,877	96,602
Supplies and equipment	22,088	5,145	61,366	88,599
Rent	71,825	16,650	-	88,475
Outside services	11,635	3,355	55,773	70,763
Repairs and maintenance	19,775	534	-	20,309
Service fees	3,332	25	10,855	14,212
Communications	-	30	13,945	13,975
Advertising and promotion	2,878	940	7,896	11,714
Tax and license	409	4,737	2,574	7,720
Travel	1,363	1,362	3,863	6,588
Printing and reproduction	-	-	3,452	3,452
Postage and delivery	223	2,044	1,168	3,435
Dues and subscriptions	2,955	54	-	3,009
Utilities	2,275	560	-	2,835
Training and conference	2,170	-	164	2,334
Meals and entertainment	645	122	644	1,411
Awards	-	-	665	665
Total	$ 1,056,987	$ 162,840	$ 319,770	$ 1,539,597

Consolidated Statement of Cash Flows

For the Eighteen Months Ended June 30, 2019

		Increase (decrease) in cash and cash equivalents
Cash flows from operating activities		
Change in net assets	$	(64,435)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		105,709
Loss on sale and disposal of property and equipment		5,383
Net realized losses on investments		35,685
Net unrealized gains on investments		(16,488)
Donated property		(19,000)
Decrease in operating assets:		
Accounts receivable		6,534
Pledges receivable		16,252
Prepaid expenses		71
Increase (decrease) in operating liabilities:		
Accounts payable		366
Accrued liabilities		(14,993)
Accrued vacation		6,696
Net cash provided by operating activities		61,780
Cash flows from investing activities		
Purchase of investments		(1,240,233)
Sale of investments		964,292
Proceeds from sale of equipment		500
Net cash used in investing activities		(275,441)
Net decrease in cash and cash equivalents		(213,661)
Cash and cash equivalents at beginning of period		856,389
Cash and cash equivalents at end of period	$	642,728

Supplemental disclosures of cash flow information

Non-cash investing transactions

Property acquired through gifts in-kind	$	19,000

See accompanying Notes to Consolidated Financial Statements

Note A. Nature of Activities

Giant Steps Therapeutic Equestrian Center, Inc. ("Giant Steps") was incorporated in 1997 under the laws of the State of California for the charitable purpose of bringing the proven benefits of therapeutic horseback riding to physically, developmentally, and/or cognitively disabled individuals. Giant Steps has since added ground breaking work programming for individuals living with emotional disabilities. Giant Steps is open to people of all ages with disabilities who reside in the Bay Area Counties. It is a Premier Accredited Center Member of the Professional Association of Therapeutic Horsemanship ("PATH") which provides safety standards to its members. Giant Steps' instructors are certified by PATH. Giant Steps' support comes primarily from special events, individual donors' contributions and private grants. Giant Steps receives no government funding.

Giant Steps Charity Classic, Inc. (the "Classic") was incorporated on February 20, 2014 under the laws of the State of California for the charitable purpose of operating the Giant Steps Charity Classic horse show. Contributions, revenues and expenses related to this event are recorded on the books of the Classic. The net proceeds from the Classic specifically and exclusively support Giant Steps. Together, these organizations are known as (the "Center").

The Classic ceased operations as of December 31, 2018 and the organization was formally dissolved with the State of California in October 2019. All assets were transferred over to the Giant Steps Therapeutic Equestrian Center as of December 31, 2018.

The statement of activities is presented for an 18 month period to accommodate the one-time change in year end from December 31 to June 30. Subsequent statements of activities will be presented for 12 month periods

Note B. Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Giant Steps and the Classic. Both organizations share the same Executive Director. All material inter-company accounts and transactions have been eliminated during the consolidation process.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

Note B. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Center to meet the stipulations or that become unrestricted at the date specified by the donor or net assets subject to donor-imposed stipulations that are maintained permanently by the Center. The income from these assets is available for either general operations or specific programs as specified by the donor.

Net assets released from restriction – Net assets with donor restrictions are released to net assets without donor restrictions when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Cash and cash equivalents

Cash equivalents are considered to be short-term, highly liquid investments with original maturities of three months or less, except when a restriction is imposed which limits the investment's use to long-term.

Investments

Investments, which are comprised of mutual funds and exchange traded funds, are carried at fair value. Unrealized gains and losses are included in the consolidated statements of activities. Investment earnings restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the earnings are recognized.

Accounts receivable

Accounts receivable represent amounts billed but not yet collected. The Center uses the allowance method to reserve for uncollectible accounts. Management periodically evaluates the allowance. At June 30, 2019, management determined that no material allowance was necessary. It is the Center's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property, equipment and improvements

Property, equipment and improvements are stated at cost. Depreciation is computed under the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years. Leasehold improvements are depreciated using the straight-line method over the lesser of the estimated useful lives or the term of the lease agreement during the year of acquisition.

Note B. Summary of Significant Accounting Policies (continued)

Property, equipment and improvements (continued)

Donated property is recorded at the estimated fair value at the date of receipt. 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 temporarily restricted. It is the Center's policy to capitalize property and equipment over $2,500.

Revenue recognition

Revenue from exchange transactions

Program fee revenue from the mounted riding classes and from the ground work programming are recognized as revenue when the classes are held.

Contributions and contributed services

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Center reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a 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 consolidated statements of activities as net assets released from restriction. Restricted contributions whose donor-imposed restrictions are fulfilled or expire within the same reporting period are reported as contributions without donor restrictions.

Verifiable pledges for contributions are recorded as pledges receivable. Contributions receivable are recorded at net realizable value. The Center uses the allowance method to reserve for uncollectible accounts and management periodically evaluates the allowance. At June 30, 2019, management determined that no material allowance was necessary.

Donated services provided by instructors and the farrier were valued at $32,196 and $29,370 for the eighteen months ended June 30, 2019, respectively. These services are recognized in the consolidated statements of activities as in-kind services and goods. A large number of individuals perform significant amounts of voluntary services to benefit the Center’s program services and in its fundraising campaigns. During the eighteen month period, approximately 15,221 volunteer hours were donated to the Center. However, since the value of these services do not meet the criteria to be recorded as in-kind, the donated services are not reflected in the consolidated financial statements.

Note B. Summary of Significant Accounting Policies (continued)

Income taxes

The Center is a nonprofit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, the Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption, commonly referred to as unrelated business income. No income tax provision has been recorded since management determined that the Center had no unrelated business income.

The Center determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2019, the Center has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Center's exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for state.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relates to the collectability of accounts and pledges receivable, depreciable lives of property, equipment and improvements, and indirect functional expense allocations. Actual results could differ from those estimates.

Adoption of new accounting pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* which makes targeted changes to the not-for-profit financial reporting model. Under this new ASU, the existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) is replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions are disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements.

Note B. Summary of Significant Accounting Policies (continued)

Adoption of new accounting pronouncement (continued)

Entities are required to disclose (on the face of the statement or in notes) the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This ASU is effective for fiscal years beginning after December 15, 2017, with early application permitted. Management has adopted this update for the eighteen months ended June 30, 2019.

Recent accounting pronouncements

In June 2018, the Financial Accounting Standards Board issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which distinguishes the difference between contributions and exchange transactions. Under this ASU, an entity will need to evaluate whether the transaction should be accounted for as a contribution (nonreciprocal transaction) which occurs when the resource provider is not itself receiving commensurate value for the resources provided or as an exchange (reciprocal) transaction which occurs when the resource provider is receiving commensurate value in return for the resources transferred. A determination will also need to be made on whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. This ASU is effective for fiscal years beginning after December 15, 2019, with early application permitted. This ASU should not be applied on a retrospective basis. The Center is evaluating the impact of this standard on the financial statements.

Note C. Liquidity

Financial assets are considered unavailable due to donor-imposed restrictions or when the governing board has set aside funds for internal designations. Amounts available include donor-restricted amounts that will meet purpose or time restriction within the next twelve months from the statement of position date. Pledges receivable are subject to implied time restrictions but are expected to be collected within one year. The Center operates with a balanced budget and anticipates covering its general expenditures with existing working capital and by maintaining and expanding existing programs and relationships with funders who have provided donations without restrictions and are willing to provide multi-year grants.

Note C. Liquidity (continued)

The following reflects the Center's financial assets reduced by amounts not available for general use within one year.

Cash and cash equivalents	$ 642,728
Accounts receivable	7,116
Pledges receivable	8,000
Investments	1,224,685
	1,882,529
Less funds unavailable for general expenditure within one year due to:	
Designated by the Board for operating reserves	(921,980)
Donor imposed purpose and time restrictions	(410,676)
Funds available to meet expenditures within one year	$ 549,873

Note D. Investment Income

The following schedule summarizes the investment income and its classification in the statements of activities for the eighteen months ended June 30, 2019:

Dividends and interest	$ 40,056
Net realized losses	(35,685)
Net unrealized gains	16,488
Investment expenses	(5,353)
Net investment income	$ 15,505

Note E. Fair Value Measurement

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Valuation based on quoted market prices in active markets for identical assets or liabilities that the Center has the ability to access.

Level 2: Valuations based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.

Note E. Fair Value Measurement (continued)

Level 3: Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Center's perceived risk of that investment.

The Center has invested in level 1 investments in mutual funds and exchange-traded funds with fair values of $741,776 and $481,887, respectively as of June 30, 2019. The fair value of the mutual funds are determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date. The fair value of the exchange-traded funds are determined by the published closing price on the last business day of the fiscal year.

Note F. Property, Equipment and Improvements

Property, equipment and improvements consist of the following as of June 30, 2019:

Leasehold improvements	$ 940,741
Equipment	107,333
Website and software	51,792
Vehicles	46,500
Horses	40,660
Total depreciable assets	1,187,026
Accumulated depreciation	(681,895)
	$ 505,131

Depreciation expense for the eighteen months ended June 30, 2019, amounted to $105,709.

Note G. Net Asset Classifications

All general operating revenues and expenses related to the program activities of the Center are included in the change in net assets with donor restrictions. From time to time donations received without donor restrictions are designated by the Center's board of directors as board designated funds. The board designated funds consist of funds with no donor or legal restrictions, but through board resolutions have been set aside for specific purposes.

Note G. Net Asset Classifications (continued)

Net assets consist of the following as of June 30, 2019:

With donor restrictions:	
Purpose restricted:	
Youth programming	$ 400,271
Program training	2,405
Time-restricted, for periods after the eighteen months ended June 30, 2019	8,000
Total net assets with donor restrictions	410,676
Without donor restrictions:	
Designated by the Board for operating reserves	921,980
Undesignated	1,019,319
Total net assets without donor restrictions	1,941,299
Net assets	$ 2,351,975

Note H. Operating Leases

The Center has an operating lease for office space. The office lease is a month-to-month lease with a monthly payment of $925. For the eighteen months ended June 30, 2019, the lessor has made a donation to the Center of a 50% monthly rent reduction.

The Center has an operating lease for the riding facility which expires in May 2024. The Center has one renewable option for five years each to extend the lease to May 2029. Lease payments are at $3,000 per month, increasing $50 per month on each anniversary date of the lease up to $3,200.

The Center leases various equipment with annual payments of $6,046, the leases expire in May 2024.

Note H. Operating Leases (continued)

Future minimum rental payments for the years ending June 30 are as follows:

2020	$ 41,270
2021	41,294
2022	41,894
2023	42,494
2024	38,683
	$ 205,635

Total rent expense amounted to $88,475 during the eighteen months ended June 30, 2019.

Note I. Concentration of Deposit Risk

At various times during the eighteen months ended June 30, 2019, the Center had with financial institutions deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250,000. The Center had cash on deposit in excess of the FDIC insured amount of approximately $375,000 at June 30, 2019.

Note J. Subsequent Events

The Center evaluated subsequent events from July 1, 2019 through March 9, 2020, the date which the consolidated financial statements were available to be issued.