

THE GENTLE BARN FOUNDATION

FINANCIAL STATEMENTS
For the year ended December 31, 2018

STERN, KORY, SREDEN & MORGAN

An Accountancy Corporation

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THE GENTLE BARN FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Gentle Barn Foundation
Newhall, California

We have audited the accompanying financial statements of The Gentle Barn Foundation (a non-profit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 statement.

To the Board of Directors of
The Gentle Barn Foundation

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gentle Barn Foundation as of December 31, 2018, 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.



Stern, Kory, Sreden and Morgan, AAC

Stevenson Ranch, California
August 22, 2019

**THE GENTLE BARN FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

Current Assets

Cash and cash equivalents	\$ 146,468
Marketable securities	1,047
Inventory	19,329
Prepaid expenses	11,076
	11,076

Total Current Assets 177,920

Property and Equipment, net 2,816,194

Other Asset

Security deposits	2,000
	2,000

Total Assets \$ 2,996,114

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 105,367
Accrued expenses	14,317
Credit cards payable	16,606
Sales tax payable	3,391
Accrued vacation	41,380
Security deposits - tenants	3,400
	3,400

Total Current Liabilities 184,461

Net Assets

Without donor restrictions	2,763,654
With donor restrictions	47,999
	47,999

Total Net Assets 2,811,653

Total Liabilities and Net Assets \$ 2,996,114

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,966,402	\$ 557,500	\$ 3,523,902
Sunday program income	201,562	-	201,562
Sales of products and refreshments	229,855	-	229,855
Other expenses	(4,105)	-	(4,105)
Net assets released from restrictions	525,080	(525,080)	-
Total Unrestricted Support	<u>3,918,794</u>	<u>32,420</u>	<u>3,951,214</u>
EXPENSES			
Program services			
Animal care	2,415,587	-	2,415,587
Sunday operating costs	28,341	-	28,341
Cost of sales	156,960	-	156,960
Total Program services	<u>2,600,888</u>	<u>-</u>	<u>2,600,888</u>
Support services	600,136	-	600,136
Fundraising	270,849	-	270,849
Total Expenses	<u>3,471,873</u>	<u>-</u>	<u>3,471,873</u>
Change in net assets	<u>446,921</u>	<u>32,420</u>	<u>479,341</u>
Net Assets at the Beginning of the Year	<u>2,316,733</u>	<u>15,579</u>	<u>2,332,312</u>
Net Assets at the End of the Year	<u><u>\$ 2,763,654</u></u>	<u><u>\$ 47,999</u></u>	<u><u>\$ 2,811,653</u></u>

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED
DECEMBER 31, 2018**

	Program Services	Supporting Services	Fundraising	Total
Advertising fees	\$ 414,067	\$ -	\$ -	\$ 414,067
Animal care expenses	410,116	-	-	410,116
Auto expense	29,240	9,747	-	38,987
Bank fees	-	58,978	-	58,978
Consultant fees	5,140	1,285	-	6,425
Contributions	-	100,000	-	100,000
Cost of sales	156,960	-	-	156,960
Depreciation	57,649	969	-	58,618
Equipment rental	24,398	-	-	24,398
Fundraising expenses	-	-	92,992	92,992
Insurance	109,477	109,477	-	218,953
Meals and entertainment	10,705	10,705	-	21,410
Moving expenses	-	5,362	-	5,362
Office expense	108,375	36,125	-	144,500
Payroll expenses	79,994	11,999	7,999	99,992
Professional fees	-	77,730	-	77,730
Property maintenance	93,650	-	-	93,650
Rent	59,500	18,000	-	77,500
Repairs and maintenance	-	9,580	-	9,580
Salaries	809,001	121,350	80,900	1,011,251
Sunday cost	28,341	-	-	28,341
Taxes and licenses	4,831	1,208	-	6,039
Telecommunication and internet	25,864	6,466	-	32,330
Travel expense	88,958	-	88,958	177,916
Utilities	84,622	21,156	-	105,778
TOTAL	\$ 2,600,888	\$ 600,136	\$ 270,849	\$ 3,471,873

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

Cash Flows From Operating Activities	
Increase in net assets	\$ 479,341
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	58,618
Loss on disposal of asset	4,100
Decrease (increase) in operating assets	
Marketable securities	(1,047)
Prepaid expenses	3,574
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	40,707
Credit card payable	5,050
Sales tax payable	(1,070)
Accrued vacation	2,379
Security deposits - tenants	1,400
	<hr/>
Net Cash Provided by Operating Activities	593,052
	<hr/>
Cash Flows From Investing Activities	
Proceeds from disposal of asset	3,400
Purchase of property and equipment	(1,037,190)
	<hr/>
Net Cash Used in Investing Activities	(1,033,790)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(440,738)
	<hr/>
Cash and Cash Equivalents at Beginning of Year	587,206
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Cash and Cash Equivalents at End of Year	\$ 146,468
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Supplementary Information	
Interest expense	\$ 171
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See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Gentle Barn Foundation (the "Organization" or the "Foundation") is a nonprofit corporation established in 1999 under the laws of the state of California. The Organization was created to bring children and animals together in a natural environment for the purpose of helping children to learn the concepts of non-violence, unconditional love, and gain the sense of responsibility toward animals, to each other and the earth. The Organization specifically rescues and shelters animals that are abused, neglected and abandoned and cares for them at its four locations, two in Southern California (Santa Clarita and Agua Dulce), one in Tennessee (Christiana), and one in Missouri (Dittmer). The Organization is host to visiting at-risk children and children with special needs to share an interactive environment with the animals. The Organization opens to the general public every Sunday in California and Missouri and every Saturday in Tennessee.

Basis of Accounting

The Organization utilizes the accrual method of accounting in accordance with generally accepted accounting principles whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards, Financial Statements for Not-for-Profit Organizations. Under these guidelines, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions

Revenue Recognition

Contributions and support are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions are considered to be net assets without donor restrictions unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenues are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Membership revenues are recognized when memberships are issued as the benefits provided to members are nominal and the revenues are, in effect, contributions to the Foundation.

In-Kind Support

The Organization's policy is to recognize contributed professional services if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets and materials are recognized at fair market value when received. In-kind contributions of veterinary services totaled \$5,010 for the year ended December 31, 2018. Other donated services from volunteers are not recognized as contributions for financial statement purposes as the recognition criteria have not been satisfied. The organization estimates that they received more than 83,000 volunteer hours per year.

Shipping Revenue

The Organization sells various types of branded merchandise on its website. Shipping fees billed to customers are considered sales revenue and shipping and handling costs, which include packaging materials and delivery costs, are included in the cost of sales.

Fair Values of Financial Instruments

The Organization's financial instruments consist of the cash and cash equivalents, receivables, payables, and accrued expenses. The carrying amounts reported in the statement of financial position approximate fair values based on quoted market prices or due to the short-term maturities of those instruments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosures 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.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalent

For purposes of the statement of cash flows, the Organization considers all demand deposits, money market funds, and unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

Inventory

Inventory represents apparel, bags, toys, and other branded merchandise available for sale on the Foundation's website or onsite at the Santa Clarita and Christiana locations, and is stated at the lower of cost or market determined by first-in, first-out method.

Income Taxes

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as an organization that is not a private foundation. Accordingly, no provision for income tax is made in the financial statements. The 2016 through 2018 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2015 through 2018 tax years remain subject to examination by the State of California.

Property and Equipment

Property and equipment are recorded at cost. Donations of significant property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restrictions 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 net assets with donor restrictions. Absent donor stipulations regarding 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.

The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Maintenance and repairs are expensed in the period incurred. The estimated useful lives of property and equipment are as follows:

Building and improvements	5 - 39	Years
Farm equipment and furniture	5 - 10	Years
Office furniture and equipment	5 - 7	Years
Vehicles	5	Years
Website	3	Years

Advertising Costs

It is the Organization's policy to charge advertising costs to operations when incurred.

Expense Allocation

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

Long-Lived Assets

The Organization assesses the impairment of its long-lived assets, including property and equipment, whenever economic events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Long-lived assets are considered to be impaired when the sum of the expected future operating cash flows, undiscounted and without interest charges, is less than the carrying amounts of the related assets. During the year 2018, the Organization determined that no impairment loss needed to be recognized for any applicable assets.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at several financial institutions within the Santa Clarita Valley area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Throughout the year cash balances may be in excess of these insured levels. Separate bank accounts are maintained for specific programs and funds designated by the Board for specific purposes.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 2 - CONCENTRATION OF CREDIT RISK (continued)

For the year ended December 31, 2018, three donors accounted for 21% of the contributions to the Organization.

NOTE 3 - PROPERTY AND EQUIPMENT

At December 31, 2018, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,299,653	\$ -	\$ 2,299,653
Building and land improvements	514,311	128,364	385,947
Farm equipment and furniture	85,121	69,401	15,720
Office furniture and equipment	55,169	52,684	2,485
Vehicles	280,218	169,308	110,910
Website	2,465	986	1,479
Property and Equipment, net	<u><u>\$ 3,236,937</u></u>	<u><u>\$ 420,743</u></u>	<u><u>\$ 2,816,194</u></u>

Depreciation expense for the year ended December 31, 2018 was \$58,618.

NOTE 4 – ACCRUED VACATION

Accrued vacation consists of the portion of accumulated vacation pay earned through past services rendered by the Organization’s employees. Accrued vacation time is a capped based on each employee’s number of years in service. The amount of accrued vacation benefits amounts to \$41,380 for the year ended December 31, 2018.

Sick benefits are accumulated for each employee. The employees do not gain a vested accumulated sick leave and it is not recognized as a liability of the Organization since payment of such benefits is recorded as expenditures in the period the sick leave is taken.

NOTE 5 – COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Organization leases approximately six acres of land in Santa Clarita on a month-to-month basis, which includes the corporate office and animal housing, from two employees who are the original founders of the Organization. The monthly rent is \$4,500. A formal lease agreement is currently in negotiation between the founders and the Board of Directors.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2018**

NOTE 5 – COMMITMENTS AND RELATED PARTY TRANSACTIONS (continued)

Certain employees of the Organization lease residences from the Organization at its properties located in Agua Dulce, CA, Christiana, TN and Dittmer, MO. In exchange for housing, the employees perform certain farm duties. The duties are in addition to the employee's daytime employment with the Organization and are compensated separately by the provision of living quarters. Each lease ends upon the termination of the employee, at which time the employee has a limited time to vacate the residence.

NOTE 6 - SUBSEQUENT EVENTS

In March 2019, the Organization signed a non-cancelable lease agreement for office space in Valencia, California, effective April 1, 2019. The lease provides for monthly rental payments of \$3,551 through April 30, 2021. The rental expense under the lease are \$28,405, \$42,607, and \$14,202 for the years ended December 31, 2019, 2020 and 2021, respectively.

Management has evaluated subsequent events through August 22, 2019, the date on which the financial statements were available to be issue and concluded that there were no additional subsequent events to report.

