THE GENTLE BARN FOUNDATION

FINANCIAL STATEMENTS
For the year ended December 31, 2021

STERN, KORY, SREDEN & MORGAN
An Accountancy Corporation

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THE GENTLE BARN FOUNDATION

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS & CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021, and the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Gentle Barn Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Gentle Barn Foundation 's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors of
The Gentle Barn Foundation

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Gentle Barn Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Gentle Barn Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Stern, Kory, Sreden and Morgan

Stern, Kory, Sreden and Morgan, AAC

Stevenson Ranch, California
April 21, 2022

THE GENTLE BARN FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

Current Assets	
Cash and cash equivalents	$ 408,297
Inventory	87,879
Grants receivable	211,290
Prepaid expenses and other	8,813
Total Current Assets	716,279
Property and Equipment, net	2,726,027
Total Assets	$ 3,442,306

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	$ 76,306
Accrued expenses	17,002
Credit cards payable	14,102
Sales tax payable	8,987
Accrued vacation	93,542
Payroll expenses	29,750
Total Current Liabilities	239,689
Long-Term Liabilities	
Security deposits - tenants	1,510
Total Liabilities	241,199
Net Assets	
Without donor restrictions	3,046,753
With donor restrictions	154,354
Total Net Assets	3,201,107
Total Liabilities and Net Assets	$ 3,442,306

See accompanying notes and independent auditor’s report

THE GENTLE BARN FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	$ 2,325,252	$ 105,772	$ 2,431,024
Sunday program income	537,706	-	537,706
Special events	8,736	-	8,736
Sales of products	87,993	-	87,993
Employer retention credit	291,810	-	291,810
PPP loan forgiveness and Cares Act Grant	662,529	-	662,529
Property loss settlement	149,421	-	149,421
Other income	1,016	-	1,016
Net assets released from restrictions	72,000	(72,000)	-
Total Support and Revenues	4,136,463	33,772	4,170,235
EXPENSES			
Program services			
Animal care	2,461,714	-	2,461,714
Sunday operating costs	60,642	-	60,642
Cost of sales	170,265	-	170,265
Total Program services	2,692,621	-	2,692,621
Support services	618,791	-	618,791
Fundraising	179,225	-	179,225
Total Expenses	3,490,637	-	3,490,637
Change in Net Assets	645,826	33,772	679,598
Net Assets at the Beginning of the Year	2,400,927	120,582	2,521,509
Net Assets at the End of the Year	$ 3,046,753	$ 154,354	$ 3,201,107

See accompanying notes and independent auditor’s report

THE GENTLE BARN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED
DECEMBER 31, 2021

	Program Services	Supporting Services	Fundraising	Total
Advertising fees	$ 176,078	$ -	$ 38,099	$ 214,177
Animal care expenses	408,014	-	-	408,014
Auto expense	26,658	8,886	-	35,544
Bank fees	-	96,307	-	96,307
Cost of sales	170,265	-	-	170,265
Depreciation	56,271	969	-	57,240
Equipment rental	4,213	-	-	4,213
Insurance	147,311	147,311	-	294,622
Meals and entertainment	4,705	4,705	-	9,410
Office expense	100,583	33,528	-	134,110
Payroll expenses	145,905	21,886	14,590	182,381
Professional fees	-	82,552	-	82,552
Property maintenance	102,362	-	-	102,362
Rent	41,914	18,000	-	59,914
Repairs and maintenance	-	4,671	-	4,671
Salaries	1,070,846	160,627	107,085	1,338,557
Sunday cost	60,642	-	-	60,642
Taxes and licenses	8,798	2,199	-	10,997
Telecommunications and internet	31,426	7,857	-	39,283
Travel expense	19,451	-	19,451	38,902
Utilities	117,180	29,294	-	146,474
TOTAL	$ 2,692,621	$ 618,791	$ 179,225	$ 3,490,637

See accompanying notes and independent auditor’s report

THE GENTLE BARN FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2021

Cash Flows From Operating Activities	
Increase in net assets	$ 679,598
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation	57,240
Gain on disposal of asset	(1,000)
PPP Loan Forgiveness	(592,529)
Decrease (increase) in operating assets	
Marketable securities	4,918
Grants receivable	(211,188)
Inventory	(61,347)
Security deposits	5,000
Prepaid expenses	(8,813)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(17,984)
Credit card payables	11,043
Payroll expenses	29,750
Sales tax payable	8,166
Accrued vacation	(20,315)
Security deposits - tenants	(1,590)
Net Cash Used In Operating Activities	(119,051)
Cash Flows From Investing Activities	
Proceeds from disposal of asset	1,000
Purchase of property and equipment	(22,000)
Net Cash Used in Investing Activities	(21,000)
Cash Flows From Financing Activities	
PPP Loan	274,642
Net Cash Provided by Financing Activities	274,642
Net Increase in Cash and Cash Equivalents	134,591
Cash and Cash Equivalents at Beginning of Year	273,706
Cash and Cash Equivalents at End of Year	$ 408,297
Supplementary Information	
Interest expense	$ 16

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.

Financial Statement Presentation

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, which are described as follows:

> *Net Assets With Donor Restrictions* – Net Assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the pass of time, purpose, or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

> *Net Assets Without Donor Restrictions* – Net assets for use in general operations and not subject to donor restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. No membership revenue was recognized in 2021.

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. 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 15,000 volunteer hours per year.

Shipping Revenue

The Organization sells various types of branded merchandise on its website. Shipping fees and associated costs billed to customers are considered sales revenue and shipping and handling costs.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, CA, Dittmer, MO and Christiana, TN locations, and is stated at the lower of cost or net realizable value 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 2019 through 2021 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2018 through 2021 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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.

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 2021, the Organization determined that no impairment loss needed to be recognized for any applicable assets.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases" (Topic 842). ASU 2016-02 requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncement (continued)

expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, the new ASU 2016-02 will require both types of the leases to be recognized on the balance sheet.

On May 20, 2020, the FASB approved deferral of the effective date of ASC 842 for private companies to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15. 2022. The guidance requires companies to apply the requirements in the year of adoption using a modified retrospective approach. Management is currently evaluating the impact of the adoption of ASU 2016-02 on the financial statements.

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.

For the year ended December 31, 2021, there were no donors that contributed over 10% of the total contribution to the Organization.

NOTE 3 – GRANTS RECEIVABLE

The Organization was eligible for the Employee Retention Credit (“ERC”) under the CARES Act. The ERC provides eligible employers with less than 500 employees a refundable tax credit against the employer’s share of social security taxes for any calendar quarter during 2021 in which total revenue decreased by more than 20% of the total revenue during the same quarter in 2019. The ERC is equal to 70% of $10,000 of qualified wages paid to employees for a maximum credit per employee of $7,000 for each calendar quarter. The credit was discontinued for quarters ending after September 30, 2021. The Organization claimed ERC credits of $355,488, less processing fees of $63,678, for the year ended December 31, 2021. As of December 31, 2021, credits of $257,287, less processing fees of $45,997, had not yet been received.

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2021, property and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,299,654	$ -	$ 2,299,654
Building and land improvements	564,546	196,062	368,484
Farm equipment and furniture	91,338	79,265	12,073
Office furniture and equipment	64,053	60,585	3,468
Vehicles	297,491	255,143	42,348
Property and Equipment, net	$ 3,317,082	$ 591,055	$ 2,726,027

Depreciation expense for the year ended December 31, 2021 was $57,240.

NOTE 5 – 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 $93,542 for the year ended December 31, 2021.

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 6 – REFUNDABLE ADVANCE

The Organization received a Paycheck Protection Program ("PPP") loan on April 26, 2020 in the amount of $317,887 with an interest rate of 1%. Initially, principal and interest were to be payable on a monthly basis with payments starting on December 1, 2020 and maturing on April 26, 2022. On June 5, 2020, the Payroll Protection Program Flexibility Act modified the terms of PPP loans to extend the coverage period from 8 weeks to 24 weeks and extend the maturity date to five years with repayments beginning no later than 10 months after the last day of the covered period. Under the terms of the agreement all or part of the loan may be forgiven based upon the usage of proceeds of the loan for forgivable expenses. On May 5, 2021, the Organization received 100% forgiveness.

On March 13, 2021, the Organization received PPP Loan Round 2 in the amount of $274,642 with an interest rate of 1% and matures on March 13, 2026. Under the terms of the agreement all or part of the loan may be forgiven based upon the usage of proceeds of the loan for forgivable expenses. On January 10, 2022, the Organization received 100% forgiveness.

NOTE 7 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year December 31, 2021 are as follows:

Cash and cash equivalents	$ 408,297
Inventory	87,879
Grants receivable	211,290
Prepaid expenses and other	8,813
Total financial assets	716,279
Amounts not available to be used within one year	(154,354)
Financial assets available to meet general expenditures over the next twelve months	$ 561,925

NOTE 8 – 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 $4,750. A formal lease agreement is currently in negotiation between the founders and the Board of Directors.

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 employment, at which time the employee has a limited time to vacate the residence.

NOTE 9 – RETIREMENT PLAN

The Organization sponsors a 403(b)-pension plan for all regular full-time employees who have completed at least 60 days of employment at the Organization. After a specified period of employment, the plan provided the employee with a vested interest related to their length of employment.

NOTE 10 – RISKS AND UNCERTAINTIES

Due to the outbreak of the COVID-19 coronavirus, in March of 2020 the Government mandated closures of non-essential businesses and schools. In response to this mandate, the Organization had to temporarily discontinue all public visitation, including their Peace Enhancement Program, private tours, birthday parties, field trips, and open

NOTE 10 – RISKS AND UNCERTAINTIES (CONTINUED)

to the public weekend programming, resulting in a significant financial loss. In July 2020, the Organization creatively began alternate programming including virtual classes for schools, popup virtual events and safe on-site drive-through experiences. This allowed the Organization to offer their programs in a limited capacity. Effective July 18, 2021, the Organization resumed its normal on-site programs at a reduced capacity, following CDC and County guidelines, and remained this way subsequent to year end. While economic uncertainties still remain, which could negatively impact future operating results, the Organization is confident that they have a realistic plan to reestablish the alternative programming if needed.

The Organization received PPP loans totaling $592,529 (See Note 6), $70,000 TN Cares Act Grant and ERC credit of $291,810 (see Note 3) which helped to cover employees' salaries, employee related expenses, rent and utilities for the near future. Management is opportunistic and continues to closely monitor the situation. While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and the programmatic and economic impact on the Organization, its donors, and governmental funding streams. Management continues to monitor the situation. The related financial impact and duration cannot be reasonably estimated at this time.

NOTE 11 - SUBSEQUENT EVENTS

On January 10, 2022, the Organization received 100% forgiveness on its second PPP loan (See Note 6).

Management has evaluated subsequent events through April 21, 2022, the date on which the financial statements were available to be issued and concluded that there were no additional subsequent events to report.