

THE GENTLE BARN FOUNDATION

FINANCIAL STATEMENTS

For the year ended December 31, 2022

STERN, KORY, SREDEN & MORGAN

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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

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, 2022, 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, 2022, 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, AAC

Stevenson Ranch, California
May 25, 2023

**THE GENTLE BARN FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

ASSETS

Current Assets

Cash and cash equivalents	\$ 574,279
Inventory	176,025
Prepaid expenses and other	145,740
	896,044

Total Current Assets 896,044

Property and Equipment, net 2,758,342

Other Asset

Operating lease ROU asset	165,333
	165,333

Total Assets \$ 3,819,719

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 146,882
Accrued expenses	8,309
Credit cards payable	20,421
Current maturities of operating lease liability	72,800
Sales tax payable	13,900
Accrued vacation	92,146
Payroll expenses	39,756
	394,214

Total Current Liabilities 394,214

Long-Term Liabilities

Security deposits - tenants	1,500
Operating lease liability	93,333
	94,833

Total Long-Term Liabilities 94,833

Total Liabilities 489,047

Net Assets

Without donor restrictions	3,199,683
With donor restrictions	130,989
	3,330,672

Total Net Assets 3,330,672

Total Liabilities and Net Assets \$ 3,819,719

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	\$ 3,131,029	\$ 108,002	\$ 3,239,031
Sunday program income	932,980	-	932,980
Sales of products	546,899	-	546,899
Employee retention credit	151,037	-	151,037
Other income	2,888	-	2,888
Net assets released from restrictions	131,367	(131,367)	-
Total Support and Revenues	<u>4,896,200</u>	<u>(23,365)</u>	<u>4,872,835</u>
EXPENSES			
Program services			
Animal care	3,321,756	-	3,321,756
Sunday operating costs	291,959	-	291,959
Cost of sales	82,492	-	82,492
Total Program services	<u>3,696,207</u>	<u>-</u>	<u>3,696,207</u>
Support services	748,005	-	748,005
Fundraising	299,058	-	299,058
Total Expenses	<u>4,743,270</u>	<u>-</u>	<u>4,743,270</u>
Change in Net Assets	152,930	(23,365)	129,565
Net Assets at the Beginning of the Year	<u>3,046,753</u>	<u>154,354</u>	<u>3,201,107</u>
Net Assets at the End of the Year	<u>\$ 3,199,683</u>	<u>\$ 130,989</u>	<u>\$ 3,330,672</u>

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED
DECEMBER 31, 2022**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
Advertising fees	\$ 239,277	\$ -	\$ 77,678	\$ 316,955
Animal care expenses	534,529	-	-	534,529
Auto expense	34,324	11,441	-	45,765
Bank fees	-	100,589	-	100,589
Cost of sales	82,492	-	-	82,492
Depreciation	60,983	969	-	61,952
Equipment rental	6,050	-	-	6,050
Insurance	155,834	155,834	-	311,667
Meals and entertainment	6,513	6,513	-	13,026
Office expense	167,742	55,914	-	223,656
Payroll expenses	180,154	27,023	18,015	225,192
Professional fees	-	79,700	-	79,700
Property maintenance	173,012	-	-	173,012
Rent	49,800	18,000	-	67,800
Repairs and maintenance	-	23,671	-	23,671
Salaries	1,455,890	218,383	145,589	1,819,862
Sunday cost	291,959	-	-	291,959
Taxes and licenses	20,594	5,149	-	25,743
Telecommunications and internet	36,387	9,097	-	45,484
Travel expense	57,776	-	57,776	115,552
Utilities	142,892	35,722	-	178,614
TOTAL	<u>\$3,696,207</u>	<u>\$ 748,005</u>	<u>\$ 299,058</u>	<u>\$4,743,270</u>

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

Cash Flows From Operating Activities	
Increase in net assets	\$ 129,565
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	61,952
Decrease (increase) in operating assets	
Grants receivable	211,290
Inventory	(88,146)
Prepaid expenses and other	(136,927)
Operating Lease ROU Assets	45,244
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	61,883
Credit card payables	6,319
Payroll expenses	10,006
Sales tax payable	4,913
Accrued vacation	(1,396)
Security deposits - tenants	(10)
	304,693
 Cash Flows From Investing Activities	
Purchase of property and equipment	(94,267)
	(94,267)
 Cash Flows From Financing Activities	
Repayment of operating lease obligations	(44,444)
	(44,444)
Net Increase in Cash and Cash Equivalents	165,982
Cash and Cash Equivalents at Beginning of Year	408,297
Cash and Cash Equivalents at End of Year	\$ 574,279
 Supplementary Information	
Interest expense	\$ -

See accompanying notes and independent auditor's report

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

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, Missouri, and 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.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions and support are recognized when the donor makes a donation 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 2022.

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.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

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 2020 through 2022 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2019 through 2022 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.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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 2022, the Organization determined that no impairment loss needed to be recognized for any applicable assets.

Right-of-Use Assets and Lease Liabilities

The Organization elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluating existing leases that have initial direct cost associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the right of use assets.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncement (continued)

As a lessee, the Organization records a right-of-use (ROU) asset and a lease liability on the balance sheet for all lease with terms of longer than 12 months. Leases are classified as either finance or operating. The Organization has one lease for a rental property with a 3-year term. There is no existing financing lease at year end.

The operating lease is included in operating lease ROU assets. The operating lease liability is included in current and long-term maturities of long-term debt. For operating lease, lease expense is recognized on a straight-line basis over the term of the lease. For operating leases, interest is calculated using a risk-free discount rate for a period comparable with the lease term.

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, 2022, there were no donors that contributed over 10% of the total contributions 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 \$257,287, less processing fees of \$45,997, for the year ended December 31, 2021 which was received in 2022. The Organization received an additional ERC credit of \$187,408, less processing fees of \$33,358, which was received as of December 31, 2022.

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2022, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,299,654	\$ -	\$ 2,299,654
Building and land improvements	610,918	220,350	390,568
Farm equipment and furniture	91,338	86,115	5,223
Office furniture and equipment	64,054	62,484	1,570
Vehicles	345,386	284,059	61,327
Property and Equipment, net	<u>\$ 3,411,350</u>	<u>\$ 653,008</u>	<u>\$ 2,758,342</u>

Depreciation expense for the year ended December 31, 2022 was \$61,952.

Although not included in the table above nor considered an asset value of the Organization under U.S. GAAP, as of date of this report, the Organization estimated that there was approximately \$1.2 million of appreciation in the real estate it owns. Management always has the option to sell its real estate to gain this significant appreciation, but currently has no intention to do so. This additional asset value further supports the good standing and financial stability of the Organization.

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 \$92,146 for the year ended December 31, 2022.

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

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

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 7 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year December 31, 2022 are as follows:

Cash and cash equivalents	\$ 574,279
Inventory	176,025
Prepaid expenses and other	<u>145,740</u>
Total financial assets	896,044
Amounts not available to be used within one year	<u>(130,989)</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 765,055</u></u>

NOTE 8 – COMMITMENTS AND RELATED PARTY TRANSACTIONS

As of January 1, 2022, the Organization changed its accounting method for leases as a result of implementing the requirements in the Financial Accounting Standard Board's Accounting Standards Codification (ASC) 842, Lease. There was no cumulative effect adjustment to the Organization's statement of financial position as of January 1, 2022. The components of lease expense were as follows:

	<u>Year Ending December 31, 2022</u>
Lease expense	
Operating lease expense	<u>\$ 48,000</u>
Other Information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 48,000
ROU assets obtained in exchange for new operating lease liabilities	\$ 210,577
Weighted-average remaining lease term in years for operating leases	2.33
Weighted-average discount rate for operating leases	2.88%

Maturity Analysis

	<u>Operating</u>
Year ending December 31,	
2023	\$ 72,800
2024	74,000
2025	<u>24,800</u>
Total undiscounted cash flows	171,600
Less: present value discount	<u>(5,467)</u>
Total lease liabilities	<u><u>\$ 166,133</u></u>

**THE GENTLE BARN FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2022**

NOTE 8 – COMMITMENTS AND RELATED PARTY TRANSACTIONS (continued)

The Organization leases approximately six acres of land in Santa Clarita which includes the corporate office and animal housing, from two employees who are the original founders of the Organization. The lease expires in April 2025. The total rent expense under the lease was \$67,000 for the year ended December 31, 2022.

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. There are no matching or employer contribution to the plan.

NOTE 10 - SUBSEQUENT EVENTS

In November 2022, an initial deposit for \$135,000 was made for the purchase of land in New York. The Organization is currently in the process of raising additional capital to fund the purchase of the land.

Management has evaluated subsequent events through May 25, 2023, the date on which the financial statements were available to be issued and concluded that there were no additional subsequent events to report.

