HEROES AND HORSES, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

AMATICS
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HEROES AND HORSES, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Heroes and Horses, Inc.
Belgrade, MT

Opinion
We have audited the accompanying financial statements of Heroes and Horses, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years 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 Heroes and Horses, Inc., as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits 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 Heroes and Horses, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Heroes and Horses, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)
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 Heroes and Horses, Inc.'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 Heroes and Horses, Inc.'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.

Amatics CPA Group

Bozeman, Montana
February 7, 2024

HEROES AND HORSES, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31 2022	December 31 2021
CURRENT ASSETS		
Cash and cash equivalents	$ 3,285,506	$ 2,083,408
Promises to give	502,125	42,800
Prepaid expenses	2,936	6,934
Other assets	542	-
Total current assets	3,791,109	2,133,142
PROPERTY AND EQUIPMENT		
Buildings and improvements	1,736,646	132,488
Land	3,604,104	3,604,104
Livestock	179,118	150,443
Machinery and equipment	227,306	212,806
Vehicles and trailers	455,616	397,745
Assets under construction	466,110	806,923
	6,668,900	5,304,509
Less: accumulated depreciation	(562,884)	(414,579)
Total property and equipment	6,106,016	4,889,930
Total assets	$ 9,897,125	$ 7,023,072

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts payable	$ 43,392	$ 88,103
Credit card payable	42,808	27,967
Payroll liabilities	13,155	1,063
Current portion of notes payable	41,571	39,926
Total current liabilities	140,926	157,059
NOTES PAYABLE, net of current portion	2,095,752	2,137,115
NET ASSETS		
Without donor restrictions	7,215,827	4,728,898
With donor restrictions	444,620	-
Total net assets	7,660,447	4,728,898
Total liabilities and net assets	$ 9,897,125	$ 7,023,072

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising events	$ 602,299	$ -	$ 602,299
Merchandise and goods	19,967	-	19,967
Donations	1,542,688	2,365,788	3,908,476
In-kind contributions	308,461	-	308,461
Investment income	20,220	-	20,220
Satisfaction of program restrictions	1,921,168	(1,921,168)	-
Total revenue and support	4,414,803	444,620	4,859,423
EXPENSES			
Program	1,277,256	-	1,277,256
Administration	240,516	-	240,516
Development	417,921	-	417,921
Total expenses	1,935,693	-	1,935,693
OTHER INCOME (EXPENSE)			
Gain on disposal of assets	7,818	-	7,818
Total other income (expense)	7,818	-	7,818
CHANGE IN NET ASSETS	2,486,928	444,620	2,931,548
Net assets at beginning of year	4,728,899	-	4,728,899
NET ASSETS AT END OF YEAR	$ 7,215,827	$ 444,620	$ 7,660,447

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising events	$ 592,434	$ -	$ 592,434
Merchandise and goods	26,976	-	26,976
Donations	904,110	1,009,955	1,914,065
In-kind contributions	258,565	-	258,565
Investment income	1,450	-	1,450
Satisfaction of program restrictions	1,061,340	(1,061,340)	-
Total revenue and support	2,844,875	(51,385)	2,793,490
EXPENSES			
Program	1,026,700	-	1,026,700
Administration	194,977	-	194,977
Development	283,010	-	283,010
Total expenses	1,504,687	-	1,504,687
OTHER INCOME (EXPENSE)			
Gain on disposal of assets	14,028	-	14,028
Other income (expense)	(1,989)	-	(1,989)
Total other income (expense)	12,039	-	12,039
CHANGE IN NET ASSETS	1,352,227	(51,385)	1,300,842
Net assets at beginning of year	3,376,671	51,385	3,428,056
NET ASSETS AT END OF YEAR	$ 4,728,898	$ -	$ 4,728,898

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2022

	Program	Administration	Development	Total
Administration	$ 1,003	$ 848	$ -	$ 1,851
Advertising and marketing	50,067	16,335	6,031	72,433
Bank and credit card fees	15,318	698	181	16,197
Contracted fees	31,334	-	-	31,334
Depreciation	148,483	-	-	148,483
Dues and subscriptions	85	9,626	23	9,734
Equine expenses	71,670	-	115	71,785
Equipment costs	50,588	-	-	50,588
Fundraising events	-	-	164,448	164,448
HR expenses	45	2,054	-	2,099
Insurance	30,505	1,774	-	32,279
Interest	88,174	-	-	88,174
Occupancy	28,279	15,752	6,000	50,031
Office expenses	197	10,654	50	10,901
Payroll and related costs	445,317	140,105	213,124	798,546
Professional fees	19,716	40,262	-	59,978
Program - food	34,056	-	-	34,056
Program - lease and storage	47,524	-	-	47,524
Program - supplies and equipment	127,479	-	-	127,479
Taxes, licenses, and fees	3,739	35	465	4,239
Travel	83,677	2,373	27,484	113,534
Total expenses	$ 1,277,256	$ 240,516	$ 417,921	$ 1,935,693

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2021

	Program	Administration	Development	Total
Administration	$ 2,494	$ 2,695	$ 147	$ 5,336
Advertising and marketing	19,075	3,396	1,611	24,082
Bank and credit card fees	5,835	11,235	1,130	18,200
Depreciation	106,040	-	-	106,040
Dues and subscriptions	99	5,615	639	6,353
Equine expenses	82,888	-	-	82,888
Equipment costs	62,972	-	-	62,972
Fundraising events	1,286	-	137,471	138,757
HR expenses	-	260	-	260
Insurance	23,683	4,026	-	27,709
Interest	74,915	25	-	74,940
Occupancy	13,451	25,167	12,315	50,933
Office expenses	-	-	1,221	1,221
Payroll and related costs	336,737	110,775	119,638	567,150
Professional fees	21,084	29,398	-	50,482
Program - food	33,382	-	-	33,382
Program - lease and storage	22,617	-	-	22,617
Program - supplies and equipment	162,939	-	-	162,939
Taxes, licenses, and fees	16	1,793	-	1,809
Travel	57,187	592	8,838	66,617
Total expenses	$ 1,026,700	$ 194,977	$ 283,010	$ 1,504,687

See notes to financial statements.

HEROES AND HORSES, INC.
STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from donors and grantors	$ 4,050,908	$ 2,575,672
Other cash receipts	40,187	26,438
Payments for salaries and related cost	(786,454)	(575,979)
Payments to vendors	(741,500)	(480,594)
Net cash provided by operating activities	2,563,141	1,545,537
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchases of fixed assets	(1,343,008)	(1,106,253)
Proceeds from sale of fixed assets	21,683	47,705
Net cash used by investing activities	(1,321,325)	(1,058,548)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(39,718)	(27,959)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,202,098	459,030
Cash and cash equivalents at beginning of year	2,083,408	1,624,378
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,285,506	$ 2,083,408
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchase of fixed assets through issuance of debt	$ -	$ 500,000
Purchase of fixed assets through accounts payable	$ 35,425	$ -

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Heroes and Horses, Inc. (the Organization) was established in 2014 as a 501(c)(3) Montana non-profit corporation. Heroes and Horses, Inc. exists to redefine the relationship between challenge and purpose, by reintegrating combat veterans through an innovative, comprehensive and effective process that uses the wilderness, the horse/human connection, and a proven leadership model.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. Account balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank, per depositor. The Organization has not experienced any losses in such accounts. As of December 31, 2022 and 2021, funds exceeded federally insured limits by $962,716 and $1,160,710, respectively.

Fixed Assets

Purchased property and equipment are stated at cost. Property and equipment with a purchase price over $5,000 is capitalized. All purchases of horses and mules are capitalized, regardless of the dollar amount. Donations of property and equipment are recorded as support at their estimated fair value at date of gift. 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 restricted support. Property and equipment donated with time restriction are reclassified as unrestricted once all time restrictions are met. Absent donor stipulations regarding how long those donated assets are to be placed in service, the Organization records these assets as unrestricted support. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 20 years.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, has no provision for federal income taxes. Heroes and Horses, Inc. has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi). The Organization's information returns (Form 990) are open to examination by the IRS, generally for three years after they were filed or the due date of the return, whichever is later.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization tracks and allocates all direct expenses to program, development, and administration. Indirect costs are allocated on the basis of staff time and effort.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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.

Revenue Recognition

Contributions and Grants

Contributions and grants are recognized as revenues in the period cash or assets are transferred or pledges are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of receipt.

Grants receivable and unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Grants and promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows, discounted at the short term treasury bill rate. All receivables at December 31, 2022 were collected in 2023. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Management considers all receivables to be fully collectible; therefore, no allowance has been recorded as of December 31, 2022, and 2021.

Advertising

Advertising costs are expensed as incurred.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

Contributed Nonfinancial assets

Effective January 1, 2022, the Organization retroactively adopted FASB Accounting Standards Update (ASU) 2020-07, *Not-for-Profit (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which impacts the accounting for revenue and support. The new guidance requires the Organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and disclose the amount of contributed nonfinancial assets recognized by category. The additional disclosure requires the Organization to disclose the following for each category: qualitative information; the Organization's policy (if any) about monetizing rather than utilizing the contributed nonfinancial asset; description of donor-imposed restrictions; description of valuation techniques and inputs used to arrive at fair value; and the principal market used to arrive at fair value measure if it is a market in which the recipient not-for-profit is prohibited by donor-imposed restriction from selling or using the contributed nonfinancial asset. Adoption of ASU 2020-07 did not have a significant impact on the Organization's financial statements.

Leases

Effective January 1, 2022, the Organization adopted FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other acts and circumstances. The new standard establishes a right of use (ROU) model that requires a lessee to record and ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into expense on a straight-line basis over the lease term. Adoption of ASC 842 did not have a significant impact on the Organization's financial statements.

2. OPERATING LEASES

In February 2021, the Organization began receiving an in-kind donation of office space, which is valued at $2,500 per month. There is no set term associated with the donation of the space. The amounts recognized as expense under this lease was $30,000 for each of the years ended December 31, 2022 and 2021.

The Organization leased a ranch under a month-to-month contract beginning September 2019, for $1,200 per month; amended to $2,000 per month beginning October 2020. This lease ended in May 2021. The amount paid under this lease for the year ended December 31, 2021 was $9,000.

The Organization leased office space under a month-to-month contract beginning October 2019, for $1,210 per month; amended to $1,010 per month beginning March 2020. This lease ended in January 2021. The amount paid under this lease for the year ended December 31, 2021 was $1,990.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets	2022	2021
Cash and cash equivalents	$ 3,285,506	$ 2,083,408
Promises to give	502,125	42,800
	3,787,631	2,126,208
Unavailable for general expenditure in one year		
Donor restricted capital campaign funds	(444,620)	-
Total financial resources available for general expenditure	$ 3,343,011	$ 1,681,588

The Organization receives various kinds of donor-restricted contributions throughout the year. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

4. NOTES PAYABLE

The Organization had the following notes payable as of December 31, 2022 and 2021.

	2022	2021
In December 2020, the Organization was granted a loan in the amount of $1,705,000 for the purchase of a ranch. The loan is secured by real property, matures in January 2051 and bears interest at a rate of 3.9% per annum. The loan is payable in monthly payments of $8,042, including principal and interest, commencing on February 1, 2021.	$ 1,645,247	$ 1,677,041
In December 2021, the Organization obtained a loan in the amount of $500,000 for the purchase of land. The loan is secured by real property, matures January 2052 and bears interest at a rate of 4.6% per annum. The loan is payable in monthly payments of $2,563, including principal and interest, commencing on February 1, 2022.	492,076	500,000
	2,137,323	2,177,041
Less: current portion of notes payable	(41,571)	(39,926)
Notes payable, net of current portion	$ 2,095,752	$ 2,137,115

4. NOTES PAYABLE (Continued)

Annual maturities for subsequent years are as follows:

2023	$ 41,571	
2024	43,285	
2025	45,069	
2026	46,927	
2027	48,863	
Thereafter	1,911,608	
		$ 2,137,323

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31, 2022 and 2021:

	2022	2021
Subject to expenditure for specific purpose:		
Capital campaign	$ 444,620	$ -

6. IN-KIND DONATIONS

The Organization records various types of in-kind support including goods, services, and property and equipment. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The following in-kind contributions were recognized for the year ended December 31, 2022:

	Program	Administration	Development	Total
Expenses:				
Dues and subscriptions	$ -	$ 750	$ -	$ 750
Equine expenses	9,745	-	-	9,745
Office expenses	-	300	-	300
Occupancy	17,100	6,900	6,000	30,000
Program - food	4,116	-	-	4,116
Program - supplies and equipment	59,831	-	-	59,831
Property and equipment:				
Assets under construction	22,771	-	-	22,771
Buildings and improvements	180,948	-	-	180,948
	$ 294,511	$ 7,950	$ 6,000	$ 308,461

6. IN-KIND DONATIONS (Continued)

The following in-kind contributions were recognized for the year ended December 31, 2021:

	Program	Administration	Development	Total
Expenses:				
Equine expenses	$ 35,292	$ -	$ -	$ 35,292
Office expenses	-	242	-	242
Professional fees	7,660	-	-	7,660
Program - food	11,265	-	-	11,265
Program - lease and storage	22,617	-	-	22,617
Program - supplies and equipment	112,944	-	-	112,944
Property and equipment:				
Livestock	35,000	-	-	35,000
Vehicles	30,545	-	-	30,545
Equipment	3,000	-	-	3,000
	$ 258,323	$ 242	$ -	$ 258,565

Donated goods and services are valued at estimated fair value based on retail prices or comparable rates to obtain similar goods or services.

7. COMMITMENTS

The Organization is in the process of constructing an arena, fencing, and student cabins. Construction costs, which have been capitalized as construction in progress, were $466,110 through December 31, 2022. The Organization expects the additional costs to complete the project will be approximately $600,000. These projects are expected to be completed and placed in service in 2023.

8. SUBSEQUENT EVENTS

Date of Management Evaluation
Management has evaluated subsequent events through February 7, 2024, the date on which the financial statements were available to be issued.