

PEACEFUL VALLEY DONKEY RESCUE, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2019 and 2018

PEACEFUL VALLEY DONKEY RESCUE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Peaceful Valley Donkey Rescue, Inc.
Miles, Texas

We have audited the accompanying financial statements of Peaceful Valley Donkey Rescue, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 statements.

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 Peaceful Valley Donkey Rescue, Inc. as of December 31, 2019 and 2018, 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.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
March 25, 2020

FINANCIAL STATEMENTS

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 3,885,542	\$ 2,936,286
Accounts receivable	23,141	17,782
Prepaid assets		8,733
Inventory	65,355	19,933
Investments	299,690	194,528
Other assets	85	85
Total current assets	<u>4,273,813</u>	<u>3,177,347</u>
Non-current assets:		
Property and equipment, net of accumulated depreciation	<u>2,016,900</u>	<u>1,484,766</u>
Total non-current assets	<u>2,016,900</u>	<u>1,484,766</u>
Total Assets	<u>\$ 6,290,713</u>	<u>\$ 4,662,113</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 407,835	\$ 210,147
Other liabilities	14,682	10,653
Notes payable - current	65,546	61,509
Total current liabilities	<u>488,063</u>	<u>282,309</u>
Non-current liabilities:		
Notes payable - non-current	<u>207,403</u>	<u>278,243</u>
	<u>207,403</u>	<u>278,243</u>
Total liabilities	<u>695,466</u>	<u>560,552</u>
Net assets:		
Without donor restrictions	<u>5,595,247</u>	<u>4,101,561</u>
Total net assets	<u>5,595,247</u>	<u>4,101,561</u>
Total Liabilities and Net Assets	<u>\$ 6,290,713</u>	<u>\$ 4,662,113</u>

The accompanying notes are an integral part of the financial statements.

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Support		
Contributions	\$ 1,311,109	\$ 750,855
Bequests	828,482	2,041,847
Merchandise sales	15,078	15,116
Fund raising	5,194,882	4,191,279
Total support	<u>7,349,551</u>	<u>6,999,097</u>
Expenses		
Program Services	3,971,192	3,532,106
Supporting Services:		
Management and general	334,334	275,805
Fund-raising	1,605,610	1,109,750
Total Expenses	<u>5,911,136</u>	<u>4,917,661</u>
Net Income from Operations	1,438,415	2,081,436
Other Income (Expense)		
Interest expense	(22,312)	(26,989)
Unrealized gain on investments	77,583	11,833
Total other income (expense)	<u>55,271</u>	<u>(15,156)</u>
Change in Net Assets	1,493,686	2,066,280
Net Assets, Beginning of Year	<u>4,101,561</u>	<u>2,035,281</u>
Net Assets, End of Year	<u>\$ 5,595,247</u>	<u>\$ 4,101,561</u>

The accompanying notes are an integral part of the financial statements.

PEACEFUL VALLEY DONKEY RESCUE

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2019 and 2018

	2019				
	Supporting Services				
	Program Services	Management and General	Fund Raising	Total Supporting Services	Combined Total
Salaries and wages	\$ 611,453	\$ 106,772	\$ 51,110	\$ 157,882	\$ 769,335
Payroll taxes	46,753	8,164	3,908	12,072	58,825
Employee benefits	102,234	17,852	8,545	26,397	128,631
Total payroll expenses	<u>760,440</u>	<u>132,788</u>	<u>63,563</u>	<u>196,351</u>	<u>956,791</u>
Animal care	1,897,276				1,897,276
Bank fees	29,435	547	17,969	18,516	47,951
Depreciation	145,603				145,603
Direct mail	948,223	46,420	1,524,078	1,570,498	2,518,721
Gift shop		10,870		10,870	10,870
Insurance		47,585		47,585	47,585
Miscellaneous					
Office expense		53,911		53,911	53,911
Permits, fees, and taxes		1,702		1,702	1,702
Postage and printing		7,291		7,291	7,291
Professional fees		33,220		33,220	33,220
Public awareness	40,448				40,448
Repair and maintenance	107,269				107,269
Utilities	42,498				42,498
Total Expenses	<u>\$ 3,971,192</u>	<u>\$ 334,334</u>	<u>\$ 1,605,610</u>	<u>\$ 1,939,944</u>	<u>\$ 5,911,136</u>

The accompanying notes are an integral part of the financial statements.

2018

Supporting Services				
Program Services	Management and General	Fund Raising	Total Supporting Services	Combined Total
\$ 425,675	\$ 99,894	\$ 17,716	\$ 117,610	\$ 543,285
33,651	7,897	1,400	9,297	42,948
113,903	26,730	4,740	31,470	145,373
<u>573,229</u>	<u>134,521</u>	<u>23,856</u>	<u>158,377</u>	<u>731,606</u>
1,480,059				1,480,059
20,980	1,554	19,860	21,414	42,394
108,040				108,040
1,085,222	36,466	1,065,929	1,102,395	2,187,617
	3,221		3,221	3,221
	41,671		41,671	41,671
2,507	588	105	693	3,200
	17,907		17,907	17,907
	902		902	902
	7,290		7,290	7,290
	31,685		31,685	31,685
57,102				57,102
163,787				163,787
<u>41,180</u>				<u>41,180</u>
<u>\$ 3,532,106</u>	<u>\$ 275,805</u>	<u>\$ 1,109,750</u>	<u>\$ 1,385,555</u>	<u>\$ 4,917,661</u>

PEACEFUL VALLEY DONKEY RESCUE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets from operations	\$ 1,438,415	\$ 2,081,436
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,603	108,040
(Increase) Decrease in operating assets		
Inventory	(45,422)	(8,254)
Accounts receivable	(5,359)	172
Other assets	8,733	1,218
Increase (Decrease) in operating liabilities		
Accounts payable	197,688	94,443
Other liabilities	4,029	1,767
	<u>1,743,687</u>	<u>2,278,822</u>
Cash flows from investing activities		
Purchase of property and equipment	(677,737)	(385,090)
Purchase of investments	(27,579)	(13,981)
	<u>(705,316)</u>	<u>(399,071)</u>
Cash flows from financing activities		
Interest expense	(22,312)	(26,989)
Proceeds from note payable		39,542
Payment on note payable	(66,803)	(60,760)
	<u>(89,115)</u>	<u>(48,207)</u>
Net increase in cash and cash equivalents	949,256	1,831,544
Cash and cash equivalents at beginning of year	<u>2,936,286</u>	<u>1,104,742</u>
Cash and cash equivalents at end of year	\$ <u><u>3,885,542</u></u>	\$ <u><u>2,936,286</u></u>
Supplemental items		
Interest paid	\$ <u><u>22,312</u></u>	\$ <u><u>26,989</u></u>

The accompanying notes are an integral part of the financial statements.

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND PURPOSE

Peaceful Valley Donkey Rescue, Inc. (the Organization) is a not-for-profit organization with its primary office location in Miles, Texas as well as volunteer operated facilities in California, Oregon, Arizona, Oklahoma, Iowa, Virginia, North Carolina, South Carolina, Florida, Tennessee, and Washington. The Organization provides rescue services and/or seeks out and obtains unwanted and abused donkeys. Once the donkeys are rescued, they are given medical treatment and training. When the donkeys are deemed ready, they are made available for adoption.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Peaceful Valley Donkey Rescue, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Financial statement presentation follows the recommendations of Financial Accounting Standards Board, *FASB ASC 958-205, Financial Statements of Not-for-profit Organizations*. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. In addition, the Organization is required to present a statement of cash flows.

Use of Estimates

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

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost when purchased or at fair market value when contributed. Depreciation and amortization are computed by the straight-line method over the estimated useful life of the asset as follows:

	<u>Years</u>
Office Equipment	5-7
Machinery and Equipment	5-7
Improvements	15-40

The Organization has not formally adopted a capitalization policy; however, the Organization generally capitalizes individual items with a useful life of more than five years.

Donations of property and equipment 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 support with donor restrictions. Absent donor stipulation 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.

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition

Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as contributions without donor restrictions.

All donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. There were no contributions with donor restrictions in 2019 or 2018.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the State of California Revenue and Taxation Code. The Organization has no income from unrelated business; therefore, no amounts are recorded in the financial statements. The Organization is not considered a private foundation.

The Organization files the informational Federal Form 990 with the Internal Revenue Service and the State Form 199 in the State of California. The Federal Form 990 is generally no longer open for review by the Internal Revenue Service for years prior to 2016.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory is valued at market. The difference between cost and market is not considered material.

Functional Expenses/Joint Costs

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 may differ from those estimates.

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Source of Revenue

The Organization receives its revenue from public donation, grants and fundraising. The grants have no spending stipulations.

Fundraising

During 2019 and 2018 the Organization used the services of a direct mail organization, Eberle Communications Group, formerly Fund Raising Strategies, Inc. The annual cost expended was \$2,518,721 and \$2,187,617, which was allocated between program services, administration and fundraising as shown on the statements of functional expenses. Gross revenue raised was \$5,194,882 and \$4,191,279 for the years ended December 31, 2019 and 2018, respectively.

NOTE 3: LIQUIDITY

The Organization has \$4,273,813 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$3,885,542, investments of \$299,690, accounts receivable of \$23,141, inventory of \$65,355, and other assets of \$85. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are subject to implied time restrictions with the majority expected to be collected within 30 days. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 4: CASH AND CASH EQUIVALENTS

All material cash and certificates of deposit, when applicable, are deposited into institutions that are insured or collateralized by the Federal Deposit Insurance Corporation (FDIC). Under FDIC guidelines, each depositor's accounts are insured to an aggregate of \$250,000 per financial institution. As of December 31, 2019, the Organization had deposits which exceeded the FDIC limit by a total of \$2,650,611 at First Financial Bank and \$689,499 at United Bank, but the Organization feels the risk of loss is minimal. As of December 31, 2018, the Organization had deposits which exceeded the FDIC limit by a total of \$2,080,447 at First Financial Bank and \$459,508 at United Bank.

NOTE 5: INVESTMENTS

The Organization has adopted SFAS ASC 958-320-50 *Accounting for Certain Investments held by Not-for-Profit Organizations*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. The following shows the cost and market value of the investments.

December 31, 2019			
Investments		Cost	Market Value
Equities and cash	\$	184,345	\$ 299,690
December 31, 2018			
Equities and cash		156,766	\$ 194,528

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LAND, BUILDINGS AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 700,000	\$ 700,000
Buildings	674,984	289,928
Leasehold improvements	259,456	99,626
Automotive equipment	464,956	380,694
Machinery and equipment	440,605	392,016
Furniture and equipment	1,488	1,488
Office equipment	<u>1,691</u>	<u>1,691</u>
	2,543,180	1,865,443
Less: Accumulated Depreciation	<u>526,280</u>	<u>380,677</u>
Net Property and equipment	\$ <u>2,016,900</u>	\$ <u>1,484,766</u>

Depreciation expense for the year ended December 31, 2019 and 2018 was \$145,603 and \$108,040, respectively.

NOTE 7: DEBT

	<u>2019</u>	<u>2018</u>
Note payable to Art Schaefer Trust, secured by real property located in Tom Green County, Texas, payable at \$2,867 per month including interest at 8.0%. The note matures in December 2026.	\$ 175,926	\$ 200,289
Note payable to John Deere Financial, secured by a 314 G Skid Steer Loader, payable at \$1,098 per month. The note is a 0% interest note. The note matures in January 2021.	14,279	27,460
Note payable to Ford Motor Credit, secured by a 2017 Ford F-350, payable at \$1,148 per month including interest at 6.39%. The note matures in January 2022.	26,791	38,445
Note payable to Ford Motor Credit, secured by a 2017 Ford F-350, payable at \$1,083 per month including interest at 6.89%. The note matures in September 2022.	32,436	42,774
Note payable to Ford Motor Credit, secured by a 2017 Ford F-250, payable at \$763 per month including interest at 6.89%. The note matures in October 2022.	<u>23,517</u>	<u>30,784</u>
	272,949	339,752
Less current payable	<u>65,546</u>	<u>61,509</u>
Long-term payable	\$ <u>207,403</u>	\$ <u>278,243</u>

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7: DEBT - continued

The following is a schedule of maturities as of December 31, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 65,546	\$ 17,972	\$ 83,518
2021	57,400	14,036	71,436
2022	42,750	10,180	52,930
2023	26,791	7,612	34,403
2024	29,015	5,388	34,403
2025-2026	<u>51,447</u>	<u>3,615</u>	<u>55,062</u>
	<u>\$ 272,949</u>	<u>\$ 58,803</u>	<u>\$ 331,752</u>

NOTE 8: RETIREMENT

During the years ended December 31, 2019 and 2018, the Organization contributed \$5,384 and \$7,734, respectively, to the simple IRA defined contribution retirement account for employees. The Organization matches up to 3% of employee's salary toward this plan each year for all employees who are reasonably expected to receive at least \$5,000 in compensation for the year.

NOTE 9: HEALTH INSURANCE

The Organization spent \$91,226 and \$116,170 toward health insurance for employees for the year ended December 31, 2019 and 2018, respectively.

NOTE 10: FINANCIAL INSTRUMENTS

Fair Value Measurements

Accounting principles generally accepted in the United States of America require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A fair value hierarchy exists for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

NOTE 10: FINANCIAL INSTRUMENTS - continued

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example: interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

While management believes the Corporation’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Investments – The fair value of investments in equities approximates fair value because of the active market for the equities. Investments are reported at fair value utilizing Level I inputs (market value) as reported by Edward Jones.

Inventory – The carrying amount reported in the statement of financial position approximates fair value due to the short-term nature of the inventory.

Accounts payable – The carrying amount reported in the statement of financial position approximates fair value due to the short-term nature of the liability.

The estimated fair values of the Corporation’s financial instruments are as follows:

December 31, 2019	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 3,885,542	\$ 3,885,542
Investments	299,690	299,690
Accounts receivable	23,141	23,141
Other assets	85	85
Inventory	65,355	65,355
Accounts payable	407,835	407,835

PEACEFUL VALLEY DONKEY RESCUE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10: FINANCIAL INSTRUMENTS - continued

December 31, 2018	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 2,936,286	\$ 2,936,286
Investments	194,528	194,528
Accounts receivable	17,782	17,782
Other assets	8,818	8,818
Inventory	19,933	19,933
Accounts payable	210,147	210,147

NOTE 11: DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through March 25, 2020, the financial statements issuance date.