The Red Barn, Inc.

Financial Statements

December 31, 2016

Note from Joy O'Neal

I am not an accountant, so please excuse the layman terms in my notes. They are written to help explain the report to other non-accountant folks. I learned so much through the process and am especially grateful to Carley and Brian at Carr, Riggs, and Ingram for their patience in walking us through the experience. In 2016 we moved to an accrual basis of accounting and complete a review. In 2017 we will have a full audit. I have learned through the compilation and review that numbers can be reported in numerous ways. I think it's important for our donors to understand how their money is being spent because they are entrusting us to spend the money wisely. If you have questions or concerns about anything that you read in this report, please let me know by emailing Joy@TheRed Barn.org.



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Independent Accountants' Review Report

To the Board of Directors The Red Barn, Inc.

We have reviewed the accompanying financial statements of The Red Barn, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information included in the schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

Birmingham, Alabama

Caux Rigge & Ingram, L.L.C.

March 22, 2017

The Red Barn, Inc. **Statement of Financial Position**

December 31,		2016		
Assets				
Current assets				
Cash	\$	211,387		
Prepaid insurance		2,295		
Property and equipment, net		52,500		
Total assets	\$	266,182		
Liabilities and net assets				
Liabilities				
Accounts payable	\$	-		
Total liabilities	7	-		
Net assets				
Temporarily restricted		8,000		
Unrestricted		258,182		
Total net assets		266,182		
Total liabilities and net assets	\$	266,182		

The Red Barn, Inc. Statement of Activities and Changes in Net Assets

Year ended December 31,	2016											
	Temporarily											
	Ur	restricted	R	estricted	Total							
Support, revenue, and other income												
Special events	\$	52,683	\$	- \$	52,683							
Less: Costs of direct benefits to donors		(17,769)		_	(17,769)							
Special events, net		34,914		-	34,914							
Contributions		681,392		<u> </u>	681,392							
Foundation and grants		119,500		±	119,500							
Program income		62,927		-	62,927							
Net assets released from restriction		-		-	_							
Total support, revenue and other income		898,733	20020	-	898,733							
Expenses												
Program services		627,751		_	627,751							
General and administrative		79,883		-	79,883							
Fundraising costs		42,930		-	42,930							
Total expenses		750,564			750,564							
Change in net assets		148,169		_	148,169							
Net assets - beginning of year, as originally stated		107,078		8,000	115,078							
Restatement		2,935			2,935							
Net assets - beginning of year, as restated		110,013		8,000	118,013							
Net assets - end of year	\$	258,182	\$	8,000 \$	266,182							

The Red Barn, Inc. Statement of Cash Flows

Year ended December 31,	2016
Cash flows from operating activities	
Change in net assets	\$ 148,169
Adjustment to reconcile change in net	
assets to net cash provided by operating activities:	
Depreciation	14,500
Donated horse	(15,000)
Assets (increase):	(13,000)
Prepaid expenses	640
Net cash provided by operating activities	148,309
Net increase in cash	 148,309
Cash, beginning of year	63,078
Cash, end of year	\$ 211,387
Supplemental Disclosure of Non-cash Investing Activities:	
Donated horse	\$ 15,000

The Red Barn, Inc. Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

The Red Barn, Inc. is a non-profit organization incorporated under the laws of Alabama for the purpose of promoting and supporting equine-assisted activities to individuals of all abilities and circumstances, especially children. The Organization provides weekly riding lessons for children with physical, cognitive, or emotional disabilities and special circumstances, such as foster care, adoption, social delays, and grief. The Organization also hosts traditional day camps for children and veterans and hosts training sessions for those who are interested in improving horsemanship skills, becoming an instructor, or forming an agency. The Organization is funded by a combination of corporate and individual grants and donations, fundraising events, and program fees.

Basis of accounting

The Organization's accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

The Organization reports information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets. Permanently restricted net assets subject to donor-imposed restrictions that must be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2016. Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. Unrestricted net assets are not subject to donor-imposed stipulations and include net assets which have been designated by the Board.

Cash and cash equivalents

The Organization considers all demand deposits that are available for current use to be cash equivalents.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, and betterments that prolong the useful lives of assets are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

The Red Barn, Inc. Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In accordance with the IRC regulations, the Organization is taxed on unrelated business income, which consists of earnings from activities not related to its tax exempt purpose. The Organization accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when the Organization believes that they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. The Organization has evaluated all of its tax positions and determined that it had no uncertain income tax positions as of December 31, 2016.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2012.

Allocation of expenses

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

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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.

NOTE 2 - IN KIND DONATIONS

The Organization records at cost or the estimated fair value of donated supplies, assets, and certain services when those gifts are received.

A related party has donated the use of land and buildings to the Organization valued at \$10,000 per month. For the year ended December 31, 2016, the Organization has recorded \$120,000 as an inkind contribution and rent expense.

During the 2016 fiscal year, the Organization recorded donated assets of \$15,000 as contribution revenue.

The Organization often leases horses from third parties to be used in program activities. The horses typically have little value and all ownership rights are maintained by the third party. No money is exchanged in these transactions and the value of these transactions is not recorded in the Organization's financial statements.

The Red Barn, Inc. Notes to Financial Statements

NOTE 2 – IN KIND DONATIONS (CONTINUED)

Also during the year, approximately 8,383 volunteer hours were logged by the Organization; however, no value for these volunteer hours has been recorded in the Statement of Activities and Changes in Net Assets because they do not meet the criteria for recognition.

NOTE 3 – RELATED PARTY TRANSACTIONS

Donations from officers, whether paid directly by the officers or companies owned by them, totaled \$526,664 during the year ended December 31, 2016. This included donations of rents valued at \$120,000.

NOTE 4 – CONCENTRATION OF REVENUES



For the year ending December 31, 2016, 82% of grant revenues came from two grantors. Additionally, 77% of contribution revenues came from parties related to the Organization.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Horses		80,000
Less: accumulated depreciation	100000000000000000000000000000000000000	(27,500)
Property and equipment, net	\$	52,500

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2017, the date on which the financial statements were available to be issued. Management has not deemed any subsequent events significant enough for disclosure.

NOTE 7 – RESTATEMENT

Net assets as of January 1, 2016 have been restated in the conversion of the Organization from the cash basis of accounting to the accrual basis.

Schedule of Functional Expenses The Red Barn, Inc.

Year ended December 31, 2016

	background cnecks	Bank and merchant fees	Vehicle expense	Licenses and fees	T-shirts and advertising	Banquet expenses	Miscellaneous	Supplies	Contract labor	Professional fees	Professional development	Postage and printing	Depreciation	Training	(S) Employee benefits	Insurance	Office expenses	Horse care	Repair and maintenance	(Rents	(5) Salaries, wages and payroll taxes		
(>S)																						
	\$																				\$	Se	Pro
olh 8	627,751	3 ,	1,395	1,450	877	4,735	1,641	5,322	7,618	1,401	10,468	4,771	14,500	16,729	14,503	15,406	20,256	54,802	61,483	99,600	290,734	Services	Program
	\$																				❖	Admini	Gene
10%	79,883	154	1	762	636	ı	1,594	1	ì	9,673	1,387	4,632	Ē	1	1,922	3,232	4,160	ı	I.	13,200	38,531	istrative	General and Fund Raising
	φ.																				₩.		Fund
10%0 6%	42,930	154	1	158	858	1	1,594	1	1	1,215	757	4,632	Е	1	1,048	863	3,434	ı	ı	7,200	21,017	Costs	Raising
	\$																				⊹		
	750,564	308	1,395	2,370	2,371	4,735	4,829	5,322	7,618	12,289	12,612	14,035	14,500	16,729	17,473	19,501	27,850	54,802	61,483	120,000	350,282	Total	

See accompanying notes and independent accountants' review report.

Joy's Notes about the 2016 Financial Review

Note 1 (Property and Equipment): The primary assets owned by the barn are our two horses Tusker and George. Tusker was donated in 2014 and appraised at \$65,000. We received George in 2016 and he was appraised at \$15,000. So, the two of them combined are depreciated to \$52,500.

The compilation only includes assets that are each worth more than \$5,000. All of the assets that are owned by the barn (tack, horses, equipment, computers, etc.) are insured for \$30,000, but nothing individually is valued more than \$5,000 so it's not shown on the compilation report. I have learned from this process that the values used for insurance and accounting aren't always the same.

The tractors and furniture used in the offices (except computers) are owned by Little Cahaba Properties. See the explanation at the end of this document about the arrangement between Little Cahaba Properties and The Red Barn.

Note 2 (Temporarily Restricted Assets): This donation was given by Alexis specifically to purchase appropriate horses.

Note 3 (Contributions): The contribution number includes:

George – valued at \$15,000 Rent – valued at \$120,000. See note below about rent. Sale of Teladoc Stock that our family donated – valued at \$238,663.

Note about Rent: The accountants preparing the compilation said that we must include an in-kind value for the use of the property even though our family does not charge the barn anything to use the property. Our personal accountants advise us against deducting the use of the property on our personal income taxes to avoid even the perception that we are personally benefitting from the barn's use of the property. So, even though the compilation shows off-setting entries for rent as in-kind donation and rental expense, we do not charge the barn any rent and we do not deduct any use of the property on our personal income tax. No money exchanges for the use of the property and we do not receive any personal benefit from it. The value was determined as 1% of the property's worth, which is a standard formula for rentals.

Note 4 (Concentration of Revenues): Two foundations gave 82% of grant revenues. Our family gave 77% of total contributions, including the Teladoc stock and in-kind rent.

Note about Rent: The accountants preparing the compilation said that we must include an in-kind value for the use of the property even though our family does not charge the barn anything to use the property. Our personal accountants

advise us against deducting the use of the property on our personal income taxes to avoid even the perception that we are personally benefitting from the barn's use of the property. So, even though the review shows off-setting entries for rent as in-kind donation and rental expense, we do not charge the barn any rent and we do not deduct any use of the property on our personal income tax. No money exchanges for the use of the property and we do not receive any personal benefit from it. The value was determined as 1% of the property's worth, which is a standard formula for rentals.

Note 5 (Salaries and Benefits): The Professional Association of Therapeutic Horsemanship (PATH) is our accrediting body. They recently completed a salary study for similar agencies across the United States. We are currently working to increase the salaries and benefits offered to our employees to be competitive for quality staffing. When we began in 2012, most of our staff did not need health care insurance because they were still covered under their parents' insurance. But, they are aging out of parental coverage so we now offer health care insurance. I work full time without pay, so this number would be higher if an executive director was hired.

Note 6 (Rent): The accountants preparing the review said that we must include an in-kind value for the use of the property even though our family does not charge the barn anything to use the property. Our personal accountants advise us against deducting the use of the property on our personal income taxes to avoid even the perception that we are personally benefitting from the barn's use of the property. So, even though the review shows off-setting entries for rent as in-kind donation and rental expense, we do not charge the barn any rent and we do not deduct any use of the property on our personal income tax. No money exchanges for the use of the property and we do not receive any personal benefit from it. The value was determined as 1% of the property's worth, which is a standard formula for rentals.

Note 7 (Repair and Maintenance): See the attached document about the relationship between Little Cahaba Properties and The Red Barn. As part of our strategic plan, we have been increasing the responsibility of The Red Barn to pay the maintenance and repairs associated with daily operations. For example, Little Cahaba paid for property upkeep and maintenance (primarily cutting the grass and weed-eating) until 2015 when The Red Barn began paying those expenses. Starting in 2017, Little Cahaba will no longer pay for routine maintenance of the property or buildings.

Note 8 (Breakout of Program, Administrative, and Fund Raising Expenses): Our program percentage of 84% is well within the 65% guideline established by The Better Business Bureau's Standards for Charity Accountability.

Explanation of the Relationship Between The Red Barn and Little Cahaba Properties, LLC

Little Cahaba Properties owns 33 acres located at 2700, 2718, and 2722 Bailey Road. This includes the white house, two white barns, equipment shed, indoor arena, red house, red barn, classroom, and brick house and outdoor arenas/paddocks.

The Red Barn leases for \$1/year all of the property and land owned by Little Cahaba Properties. The intent is for The Red Barn to pay for the expenses it would incur regardless of the location it leases.

All furniture and large equipment is owned by Little Cahaba, but is used by The Red Barn. The Red Barn owns some horses (others may be leased), miscellaneous tack and equipment, and the computers.

The Red Barn is responsible for maintaining these leased areas in all ways that are a direct result of operating programs on the property. This includes routine maintenance and repairs.

The Red Barn pays the utility bills for the leased areas.

Little Cahaba provides replacement and liability insurance on the buildings and equipment. The Red Barn provides liability insurance for its activities. Little Cahaba and The Red Barn are additional insured on each other's policy.

Little Cahaba pays all property tax.

Little Cahaba has two employees (Jerry Phillips and Ted Ludvik) that are paid directly by Little Cahaba to provide improvements and repairs to the property that are the landlord's responsibility (such as permanent structures). Little Cahaba also pays the worker's comp for these employees. The Red Barn does not pay any share of these expenses.

The Red Barn pays all employees that provide its programs, as well as their worker's comp. The Red Barn also pays health care insurance for its employees based on their employment status (full-time or part- time).