



A S S U R A N C E D I M E N S I O N S

Financial Statements and Independent
Auditor's Report

Luvin Arms, Inc.

December 31, 2021

Luvin Arms, Inc.

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors of
Luvin Arms, Inc.:

Opinion

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Luvin Arms, Inc.** 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 the 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 **Luvin Arms, 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, including omissions, 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.

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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 **Luvin Arms, 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 **Luvin Arms, 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.

Assurance Dimensions

Tampa, Florida
February 21, 2022

Luvin Arms, Inc.
Statement of Financial Position
As of December 31, 2021

Assets

Current Assets:

Cash and cash equivalents	\$ 401,619
Contributions receivable	51,628
Current portion of pledges receivable	250,000
Prepaid and other assets	25,919
Total current assets	729,166

Property and equipment, net	1,592,132
Restricted cash	499,977
Long-term pledges receivable, net	841,324
Total assets	\$ 3,662,599

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 15,568
Accrued expenses	62,446
Notes payable - current portion, net	9,543
Total current liabilities	87,557

Notes payable - long term portion, net	27,869
Total liabilities:	115,426

Net assets:

With donor restrictions	159,878
Without donor restrictions	3,387,295
Total net assets	3,547,173

Total liabilities and net assets	\$ 3,662,599
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The accompanying notes are an integral part of this financial statement.

Luvin Arms, Inc.
Statement of Activities
As of December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Contributions	\$ 2,129,465	\$ 35,472	\$ 2,164,937
Program service revenues	25,572	-	25,572
In-kind contributions	33,464	-	33,464
Other	16,035	-	16,035
Net assets released from restrictions	89,870	(89,870)	-
Total support and revenue	<u>2,294,406</u>	<u>(54,398)</u>	<u>2,240,008</u>
Expenses:			
Program services	998,924	-	998,924
Fundraising	183,172	-	183,172
Management and general	63,276	-	63,276
Total expenses	<u>1,245,372</u>	<u>-</u>	<u>1,245,372</u>
Other Income:			
Forgiveness of Paycheck Protection Program loan	<u>80,062</u>	<u>-</u>	<u>80,062</u>
Change in net assets	1,129,096	(54,398)	1,074,698
Net assets at beginning of the year	<u>2,258,199</u>	<u>214,276</u>	<u>2,472,475</u>
Net assets at end of year	<u><u>\$ 3,387,295</u></u>	<u><u>\$ 159,878</u></u>	<u><u>\$ 3,547,173</u></u>

The accompanying notes are an integral part of this financial statement.

Luvin Arms, Inc.
Statement of Cash Flows
As of December 31, 2021

Cash flows from operating activities:	
Change in net assets	\$ 1,074,698
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	34,433
Forgiveness of Paycheck Protection Program loan	(80,062)
Contributions receivable	(18,784)
Pledges receivable	(836,324)
Prepaid and other assets	(15,707)
Accounts payable	12,396
Accrued expenses	(2,351)
Net cash provided by operating activities	<u>168,299</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(182,120)</u>
Net cash used by investing activities	<u>(182,120)</u>
Cash flows from financing activities	
Principal payments on notes payable	(3,700)
Proceeds from Paycheck Protection Program loan	80,062
Net cash provided by financing activities	<u>76,362</u>
Net increase in cash, cash equivalents, and restricted cash	62,541
Cash, cash equivalents, and restricted cash, beginning of period	<u>839,055</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 901,596</u>
Supplemental disclosures of cash flow information	
Cash paid for interest expense	<u>\$ 326</u>

The accompanying notes are an integral part of this financial statement.

Luvin Arms, Inc.
Statement of Functional Expenses
As of December 31, 2021

	Program	Service Support		Total
		Fundraising	Administration	
Salaries and related costs	\$ 477,461	\$ 70,172	\$ 9,220	\$ 556,853
Facility maintenance	122,940	-	-	122,940
Veterinary and wellness	111,062	-	-	111,062
Professional fees	27,772	28,670	38,007	94,449
Animal food and supplies	88,986	-	-	88,986
Education and outreach	49,889	-	-	49,889
Information technology	12,348	17,513	7,561	37,422
Other expenses	613	35,109	507	36,229
Printing, postage and mailing	-	28,985	-	28,985
Utilities	25,609	717	2,652	28,978
Sanctuary equipment	23,686	-	-	23,686
Insurance	13,295	1,383	985	15,663
Office supplies	2,255	-	4,248	6,503
Volunteer programs	5,863	-	-	5,863
Rescue	2,630	-	-	2,630
Advertising	-	623	-	623
Interest	82	-	96	178
Total expenses before depreciation	964,491	183,172	63,276	1,210,939
Depreciation expense	34,433	-	-	34,433
Total expenses	<u>\$ 998,924</u>	<u>\$ 183,172</u>	<u>\$ 63,276</u>	<u>\$ 1,245,372</u>

The accompanying notes are an integral part of this financial statement.

Luvin Arms, Inc.

Notes to Financial Statements

December 31, 2021

Note A – Organization and Description of Business

Luvin Arms, Inc. (the “Organization”) is a Colorado not-for-profit corporation that was founded to operate a sanctuary for abused or neglected farm animals. The Organization opened its sanctuary in August 2015. These animals were rescued from horrific situations including abuse and neglect cases, factory farms, religious rituals, slaughterhouse, bankrupt farms, and more. The Organization is working to provide exceptional lifelong social, emotional, and cognitive care to rescued farmed animals. The Organization advocates for those who have not been rescued by sharing our residents’ stories to inspire, educate, and empower others to embrace a more compassionate and sustainable lifestyle. The Organization’s vision is to create a sanctuary of inspiration and connection where people are empowered to create change that leads to more compassionate choices for themselves, for the planet, and justice for all beings.

Note B – Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (“GAAP”). Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported according to two classes of net assets:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees (the “Board”) has designated, from net assets without donor restrictions, net assets for various reasons.
- *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 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. 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.

Recently Issued Accounting Pronouncements Not Yet Adopted

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The standard requires certain information be disclosed related to contributed nonfinancial assets, including disaggregation by category on the statement of activities by type of contributed nonfinancial asset, qualitative information about whether the contributed nonfinancial asset was monetized or utilized during the reporting period, the nonprofit’s policy about monetizing rather than utilizing the contributed nonfinancial assets, a description of any donor restrictions associated with the contributed nonfinancial assets, and the valuation techniques and inputs used to arrive at fair value measurement. The amendments in the ASU should be applied on a retrospective basis and are effective for annual reporting period beginning after June 15, 2021. Early adoption of the ASU is permitted. The Organization is currently evaluating this ASU to determine the impact, if any, on its financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update, *Leases (Topic 842)*, intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the statement of financial position—the new ASU will require both types of leases to be recognized on the statement of financial position. The ASU on leases will take effect for all non-public companies for fiscal years beginning after December 15, 2021.

Luvin Arms, Inc.
Notes to Financial Statements
December 31, 2021

Note B – Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization places its cash with high quality financial institutions. At times, cash may be in excess of FDIC insurance limits. The Organization does not believe it is exposed to any significant credit risk on cash. At December 31, 2021, the Organization had approximately \$400,000 in excess of FDIC-insured limits. The Organization has not experienced any losses in such accounts.

Restricted Cash

The Organization has recorded \$499,977 as restricted cash relating to donations towards the future construction of a medical facility.

Contributions Receivable

The Organization recognizes contributions received before the year end but not yet deposited as contributions receivable.

Pledges Receivable

Pledges receivable are recorded when the Organization receives a signed pledge from a donor. Long term pledges are discounted at the time the receivable is initially recognized at an effective interest rate of 5%. The discount is amortized to contribution revenue over the life of the receivable. Unamortized discounts recorded at December 31, 2021, are \$58,676.

Property and Equipment, Net

Property and equipment are recorded at cost, if purchased, or at estimated market value at date of receipt if acquired by gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 39 years. Significant expenditures of \$5,000 or more with an estimated useful life in excess of one year are capitalized.

Support and Revenues

All support and revenues are recorded in accordance with either ASC 958, *Not-for-Profit Entities* as contributions or in accordance with ASC 606, *Revenue from Contracts with Customers*, which is recognized when: (i) a pledge with a customer has been identified, (ii) the performance obligation(s) in the pledges have been identified, (iii) the transaction price has been determined, (iv) the transaction price has been allocated to each performance obligation in the pledge, and (v) the Organization has satisfied the applicable performance obligation over time or at a point in time.

Contributions

Contributions, including unconditional promises to give due in future periods, are recognized as revenues in the period made or received. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met. Contributions received with donor-imposed restrictions, are reclassified to net assets without donor restrictions once the donor-imposed restriction has expired. Contributions of assets other than cash are recorded at their estimated fair value at the date received.

Program Service Revenues

Program service revenues include income earned by the Organization for providing in person and virtual tours of the sanctuary. Revenue is recognized at a point in time when tour of the sanctuary is given.

Luvin Arms, Inc.
Notes to Financial Statements
December 31, 2021

Note B – Significant Accounting Policies (continued)

Support and Revenues (continued)

In-kind Contributions

In-kind contributions of donated services are recorded at their estimated fair value if the services received create or enhance non-financial assets or the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Fundraising and Special Events

Fundraising and special events are activities undertaken by the Organization are to induce potential donors to contribute money, services, material, and other assets. Activities include publicizing and conducting fundraising campaigns; maintaining donor mailing lists; and conducting special fundraising events. The Organization organizes a “Gala” with the purpose of fundraising funds to support the Organization. The Organization also recognizes revenues derived from fundraising, visitor center shop sales, and ticket sales at a point in time when cash is received, or the event takes place. There was no special event during the year ending December 31, 2021

Concentrations

The organization receives revenues from two main donors. These donations represents 96% of the total outstanding pledges receivable at December 31, 2021 and 60% of total revenues during the year ended December 31, 2021.

Functional Allocation of Expenses

The costs of programs and other activities have been summarized on a functional basis as follows:

Program – Program expenses include all direct and allocated expenses directly attributable to providing animal care and public education.

Administration – Administration expenses include all expenses not directly attributable to providing animal care or fundraising.

Fundraising – Activities include publicizing and conducting fundraising campaigns, maintaining donor lists, conducting fundraising events, and any other activities that solicit contributions from corporations, foundations, individuals and others. Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

Expenses that can be identified with a specific function are charged directly to that function, whereas costs common to multiple functions have been allocated. Salaries and wages, benefits and payroll taxes are allocated based on employee estimates of the percentage of time spent in each function. Facilities, telecommunications, office, printing, supplies and insurance expenses are allocated based on salary allocations.

Federal Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization periodically assesses whether it has incurred income tax expense or related interest or penalties in accordance with accounting for uncertain tax positions. No such amounts were recognized for the year ending December 31, 2021.

The Organization follows the income tax standard for uncertain tax positions. The Organization has evaluated their tax positions and determined they have no uncertain tax positions as of December 31, 2021. Should the Organization’s tax-exempt status be challenged in the future, the Organization’s 2019, 2020, 2021 tax years are open for examination by the IRS.

Luvin Arms, Inc.

Notes to Financial Statements

December 31, 2021

Note B – Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and net assets and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Note C – Property and Equipment, Net

Property and equipment, net consisted of the following as of December 31, 2021:

		Useful Life
Land	\$ 974,053	N/A
Building and improvements	638,465	15-39
Vehicles and equipment	107,548	5-7
	<u>1,720,066</u>	
Less: accumulated depreciation	<u>(127,934)</u>	
Property and equipment, net	<u>\$ 1,592,132</u>	

The Organization had depreciation expense of approximately \$34,000 for the year ended December 31, 2021. During the year ended December 31, 2021.

Note D – Liquidity and Availability

The Organization's management monitors its liquidity so that it is able to cover operating expenses. The Organization budgets for such costs based on the prior year actual expenses and anticipated future expenses. Budgets are approved by the Board. Management has budgeted approximately \$1,690,000 of operating expenses to be paid within one year of the balance sheet date, and anticipates sufficient donations and fundraising to cover them. The Organization has the following financial assets available within one year of the balance sheet date for general expenditures:

Financial Assets	
Cash and cash equivalents	\$ 401,619
Contributions receivable	51,628
Pledges receivable	<u>1,091,324</u>
Total financial assets	<u>1,544,571</u>
Less: financial assets not available within one year	<u>(841,324)</u>
	<u>\$ 703,247</u>

The Organization has structured its financial assets to be available, as its general expenditures and liabilities come due.

Luvin Arms, Inc.
Notes to Financial Statements
December 31, 2021

Note E – Notes Payable

The notes payable at December 31, 2021 consists of the following:

Notes payable to a donor in monthly installments of \$583, non-interest bearing, due on December 2025.	\$ 35,000
Notes payable to a financial institution in monthly installments of \$336, including interest at 3.99%, due in July 2023	6,168
Less: unamortized discount	(3,756)
Total notes payable, net	<u>37,412</u>
Less: current portion	(9,543)
Long term portion of loan	<u>\$ 27,869</u>

Future maturities of long-term debt are as follows as of December 31:

2022	\$ 9,543
2023	8,276
2024	6,236
2025	6,526
2026	6,831
	<u>\$ 37,412</u>

Note F – Paycheck Protection Program Loan

In January 2021, the Company participated in the Paycheck Protection Program (the “PPP”) under the CARES Act and secured financing through a financial institution for approximately \$80,000 at 1.00% interest. The loan will mature in February 2023 and has a deadline for forgiveness for 10 month and 24 weeks. The loan is guaranteed by the Small Business Administration. The PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses. The loan qualifies for 100% forgiveness if certain criteria are met.

The Organization has adopted the principles of IAS 20, which provides a model for the accounting of different forms of government assistance, which includes forgivable loans. Under this model, government assistance is not recognized until there is reasonable assurance (similar to the probable thresholds in U.S. GAAP) that any conditions attached to the assistance will be met and the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of the grant is recorded on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Hence, a business entity would record the cash inflow from the PPP loan as a deferred income liability and subsequently reduce the liability, with the offset through earnings as either a credit in the income statements or a reduction of the related expenses, as is recognizes the related cost to which the loan relates, for example, payroll expense.

The Organization deferred the employer portion of payroll taxes of approximately \$9,000 as of December 31, 2021, which are recorded as accrued expenses in the accompanying statement of financial position.

The Company used all of the PPP loan proceeds for salaries and wages. The Organization met the required criteria and is expecting formal forgiveness of the loan during the month February 2022.

Luvin Arms, Inc.
Notes to Financial Statements
December 31, 2021

Note G – Net Assets With Donor Restrictions

As of December 31, 2021, the Organization had the following net assets with donor restrictions:

Printing, postage and mailings for fundraising	\$	86,319
Medical facility		49,583
Gate security project		20,620
Memorial garden fund		3,356
Total financial assets	\$	<u>159,878</u>

Net assets with donor restrictions released were utilized for the following during year ended December 31, 2021:

Ground and barn improvement	\$	50,417
Printing, postage and mailings for fundraising		27,957
Gate security project		9,380
Memorial garden fund		2,116
Total financial assets	\$	<u>89,870</u>

Note H – Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization but which will only be resolved when one or more future events occur or fail to occur. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organizations's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Management has concluded that the COVID-19 outbreak in 2020 has had a significant impact on the Organization during the year ended December 31, 2021 and could continue to further impact the Organization. As discussed in Note F, the Organization received relief under the CARES Act in the form of a Paycheck Protections Program Loan ("PPP Loan"), to help mitigate the impact on the Organization.

During the year ended December 31, 2021 the Organization was directly impacted by the COVID-19 outbreak through closure of their sanctuary to the public from March 2020 to February 2021.

During this period, the Organization continued to pay current compensation levels for their employees plus taxes. Also, the Organization had to hire more personnel since volunteering for the sanctuary was diminished. The Organization believes that these costs will be covered by the PPP Loan in amount of approximately \$80,000 plus additional support from their main donors.

Due to the level of risk this virus continues to have on the global economy, it is at least reasonably possible that the Organization could further close facilities or have restrictions on capacity, which could impact the operations of the Organization in the near term that could materially impact the Organization's financial statements.

Luvin Arms, Inc.
Notes to Financial Statements
December 31, 2021

Note I – Subsequent Events

Subsequent events have been evaluated through February 21, 2022 which is the date the financial statements were available to be issued.