

FINANCIAL STATEMENTS

DECEMBER 31, 2021

BROOKE USA INC

LEXINGTON, KENTUCKY

TURNER & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Weston Office
2893 Executive Park Drive, Suite 204
Weston, Florida 33331

Telephone: 305-377-0777
Facsimile: 305-556-5601
www.turnercpas.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Brooke USA, Inc.
Key Largo, Florida

We have audited the accompanying financial statements of Brooke USA, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of revenues and expenses, functional expenses, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooke USA, 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 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 Brooke USA, Inc. Organization and to meet our other 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 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 Brooke USA, 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.

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 Brooke USA, 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 Brooke USA, 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.

Turner & Associates, LLP

Weston, Florida

May 5, 2022

BROOKE USA, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,393,847		
Accounts receivable		787		
Investments		7,515		
Prepaid expenses		<u>30,565</u>		
Total Current Assets	\$		<u>1,432,714</u>	

Total Assets	\$		<u><u>1,432,714</u></u>	
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$		<u>23,561</u>	
Total Liabilities			23,561	

NET ASSETS

Without donors restrictions:				
Board designated for discretionary grants	\$	327,477		
Board designated for operating reserve		100,000		
Undesignated		<u>981,676</u>		
Total without donor restrictions:		1,409,153		
With donors restrictions		<u>-</u>		
Total Net Assets			<u>1,409,153</u>	
Total Liabilities and Net Assets	\$		<u><u>1,432,714</u></u>	

BROOKE USA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Without Donors Restrictions	With Donors Restrictions	Total
REVENUE, SUPPORT AND GAINS			
Contributions	\$ 688,245	\$ -	\$ 688,245
In-kind contributions	1,998	-	1,998
Donated stocks	363,512	-	363,512
Interest income	5,521	-	5,521
Net realized/unrealized gain on investment	4,438	-	4,438
Other revenue - Forgivable Loan	64,883	-	64,883
Gross special events	206,592	-	206,592
Less cost of direct benefit to donors	<u>(229,329)</u>	-	<u>(229,329)</u>
Net special events revenue	(22,737)	-	(22,737)
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, support and gains	1,105,860	-	1,105,860
EXPENSES			
Program services:			
Fundraising and awareness	288,132	-	288,132
Grants to other charities	<u>548,399</u>	<u>-</u>	<u>548,399</u>
Total program services	836,531	-	836,531
Support services:			
Management	<u>260,748</u>	<u>-</u>	<u>260,748</u>
Total supporting services	260,748	-	260,748
Total expenses	<u>1,097,279</u>	<u>-</u>	<u>1,097,279</u>
CHANGE IN NET ASSETS	8,582	-	8,582
NET ASSETS, January 1, 2021	<u>1,400,571</u>	<u>-</u>	<u>1,400,571</u>
NET ASSETS, December 31, 2021	<u><u>\$ 1,409,153</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,409,153</u></u>

See independent auditors' report and notes to financial statements.

BROOKE USA, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services			Support Services	
	Fundraising and Awareness	Grants to Other Charities	Subtotal	Management	Total Expenses
FUNCTIONAL EXPENSES					
Advertising	\$ 6,492	\$ 2,597	\$ 9,089	\$ 3,895	\$ 12,984
Bank fees	8,645	3,458	12,103	5,187	17,290
Grants to other charities	44,976	359,811	404,787	44,976	449,763
Insurance	2,009	803	2,812	1,205	4,017
Occupancy	5,409	1,545	6,954	773	7,727
Office expenses	17,256	6,902	24,158	10,354	34,512
Salaries, payroll taxes and benefits	167,287	66,915	234,201	100,372	334,573
Services and professional fees	23,567	101,371	124,938	86,490	211,428
Travel	10,101	4,040	14,141	6,060	20,201
Utilities	2,391	956	3,347	1,435	4,782
TOTAL FUNCTIONAL EXPENSES	\$ 288,132	\$ 548,399	\$ 836,531	\$ 260,748	\$ 1,097,279

BROOKE USA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 8,582	
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Fair value of donated investments securities	(363,512)	
Net realized and unrealized losses on investments	(4,438)	
Forgiveness of PPP Loan - SBA	(80,177)	
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(787)	
Prepaid expenses	8,394	
Accounts payable and accrued expenses	11,443	
Deferred revenue	<u>(26,208)</u>	
Net cash used in operating activities		\$ <u>(446,703)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of securities	\$ <u>378,158</u>	
Net cash provided by investing activities		<u>378,158</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from forgivable PPP Loan - SBA	\$ <u>80,177</u>	
Net cash provided by financing activities		<u>80,177</u>

NET INCREASE IN CASH AND CASH EQUIVALENT 11,632

CASH AND CASH EQUIVALENTS, January 1, 2021 1,382,215

CASH AND CASH EQUIVALENTS, December 31, 2021 \$ 1,393,847

Brooke USA, Inc.
Notes to Financial Statements
December 31, 2021

Note 1 – Nature of Activities and Summary of Significant Accounting

General

Brooke USA, Inc (“the Organization”) is a non-profit organization, incorporated on April 5, 2007, in the State of Delaware. The Organization has been granted a license to use their brand name and image in the United States by Brooke United Kingdom (“Brooke”). The Organization was established to support sustainable equine welfare programs across Asia, Africa, the Middle East and Latin America through fundraising and stewarding donations to the areas of greatest need. Brooke USA Inc collaborates with Brooke globally to improve the welfare of working equines in the third world.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Method of Accounting

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

Financial Instruments

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and are stated at carrying cost at year-end which approximates fair value. Investments are stated at fair value.

Investments

The Organization accounts for its investments in accordance with FASB ASC 958-320 Investments Debt & Equity Securities. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair values determined by quoted market prices in the statement of financial position and unrealized gain and losses are reported in the statement of activities. Investments other than debt and equity securities without readily determinable fair values are reported at cost.

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment income/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expenses.

During 2021, the Organization received approximately \$364,000 donated securities and it was recorded as a contribution at the fair value of the securities on the date received. The Organization usually sells donated securities shortly after receipt, often within a few days. Any difference between the proceeds received from the sale of donated securities and the fair value on the date the donated securities were received is recognized as a realized gain or loss. At December 31, 2021, \$7,515 remains as investments in these financial statements.

Fair Value Measurements

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date. Refer to Note 5 for the fair value of the investment.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the accelerated method over the estimated useful lives of the assets. There is no property and equipment balance at December 31, 2021.

Brooke USA, Inc.
Notes to Financial Statements
December 31, 2021

Note 1 – Nature of Activities and Summary of Significant Accounting (Continued)

Contributions and Grants Receivable

Contributions and grants receivable that represent unconditional promises to give are recognized as revenues when the promise is received. Contributions and grants receivable that are expected to be collected in less than one year are reported at net realizable value. Those expected to be collected in more than one year are recorded at fair value at the date of promise. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Basis of Presentation

The Organization follows the recommendations of the FASB Accounting Standards Codification, (ASC), under statement ASC 958, in its statement presentation. During 2018, the organization adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) No. 2016-14 – Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Non-for-Profit Entities. This guidance is intended to improve the net asset classification requirements, and the information presented in the financial statements and notes about a non-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restriction when the associated long-lived assets is placed in serviced; a recognition of underwater endowment funds as a reduction in net assets with donor restriction. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restriction, liquidity, and expenses by both their natural and functional classification. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restriction. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restriction - Net assets available for general use and not subject to donor restrictions. The organization's policy is to designate net assets without donor restrictions at the discretion of the Board of Director.

The Board of Directors has designated net assets without restrictions for the following use:

Designated for discretionary grants– Cash reserve for discretionary grants.

Designated for operating reserve– Cash reserve designated for future operating needs.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met either by the passage of time or can be fulfilled and removed by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There are no temporary or permanently restricted net assets as of December 31, 2021.

Basis of Presentation

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed stipulations. Expenses are recorded as decreases in net assets without donor restriction. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated passage of time has elapsed) are reported as net assets released from restrictions.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference, if any. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. We recognize the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place. The main revenue are event ticket sales which are reported as special event revenue when the cost of the ticket is comparable with the benefit received such as meals, entertainment, and greens fees. All goods and services are transferred at a point in time.

Brooke USA, Inc.
Notes to Financial Statements
December 31, 2021

Note 1 – Nature of Activities and Summary of Significant Accounting (Continued)

Donated Goods and Services

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organizations records donated professional services at the respective fair values of the services received.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under the Internal Revenue Code Section 501(c)(3). This exemption is subject to periodic review by the Internal Revenue Code and is not a private foundation. Additionally, Topic 740 provides guidance on measurement, recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the disclosure requirements, the Organization's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of total interest expense and other expenses, respectively. At December 31, 2020, the Organization did not have any uncertain tax positions and thus has not recognized any interest and penalties in these financial statements. Tax years that remain subject to examination by federal authorities are 2018, 2019, 2020, and 2021.

Concentration of Credit Risk

The Organization is subject to some credit risk through short-term cash investments which are placed with high credit quality financial institutions. The Company maintains cash balances at financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2021, the Organization's uninsured cash balances was \$255,745.

Functional Expenses

The cost of providing the various program and supporting services have been summarized on a functional basis in the Schedule of Functional Expenses. Support expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Therefore, expenses required allocation on reasonable basis that is consistently applied. All expenses are allocated on the basis of estimated time and efforts.

Note 2 – Prepaid Expenses

Prepaid expenses at December 31, 2021 consist primarily of prepaid insurance and deposits made for a special event that will be held in a future date.

Note 3 - Concentrations

All of the Organization's support is generated through contributions from other organizations or individuals. Approximately 19% of the Organization's revenue is derived from two donors. Changes in economic conditions can directly affect a donor's ability and willingness to make future contributions to the Organization.

During 2021, the Organization donated \$400,121 to other Brooke's programs around the world, including projects in Africa and Asia. Also, the Organization donated \$49,642 to other Foundations.

Brooke USA, Inc.
Notes to Financial Statements
December 31, 2021

Note 4 – Donated Services

The Organization receives donated services from a variety of unpaid volunteers assisting the Program in its education programs. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under FASB ASC No. 605 have not been satisfied. The Organizations records donated professional services at the respective fair values of the services received. No significant contributions of such professional services were received during the year ended December 31, 2021.

Note 5 – Investments and Fair Value Measurements

FASB Topic 820 Fair Value Measurements and Disclosures establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quotes prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level significant input to the fair value measurement. Valuation techniques used, need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Organization's investments value at December 31, 2021 are reported at fair value as follows:

Category	Fair Value	Quoted Prices: (Level 1)	Significant Other Inputs (Level 2)	Non-observable Inputs (Level 3)
Mutual funds	\$ 7,515	\$ 7,515	\$ -	\$ -
Total	<u>\$ 7,515</u>	<u>\$ 7,515</u>	<u>\$ -</u>	<u>\$ -</u>

Brooke USA, Inc.
Notes to Financial Statements
December 31, 2021

Note 6 – Liquidity and Availability

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

		2021
Cash and cash equivalents	\$	1,393,847
Accounts receivable		787
Investments		7,515
		1,402,149
Less those unavailable for general expenditures within one year, due to:		
Board Designations		(427,477)
Financial assets available to meet cash needs for general expenditures within one year.		
	\$	974,672

As part of the Brooke USA, Inc. 's liquidity management, the board designated a reserve to its liquidity operating reserve in the amount of \$100,000 and a reserve for special projects mainly in Ethiopia and West Africa, which was \$327,477 as of December 31, 2021. The governing board has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation invests cash in excess of daily requirements in liquid investments. At December 31, 2021, these investments are presented as investments in this financial statement.

Note 7 – Commitments

In October 2021, the Organization renewed a lease for office space. Rent commenced on November 1, 2021. The lease term ends on October 31, 2022. Future minimum rentals under the lease consisted of \$747 for year ended December 31, 2022, which is included in the prepaid balance in this financial statement.

In January 2021, the Organization was granted a \$64,883 forgivable loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner. The company used the PPP loan proceeds for purposes consistent with the PPP and met the criteria for forgiveness at year-end. The forgivable loan amount was recorded, and it is reflected in the "Other revenue - Forgivable Loan" caption of the Statement of Activities.

Note 8 – Subsequent Events

The Organization has evaluated subsequent events through May 5, 2022, which is the date the financial statements were available to be issued and has determined that no adjustments are needed to the financial statements.