

RETURN TO FREEDOM, INC.
DECEMBER 31, 2017 AND 2016
FINANCIAL STATEMENTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

RETURN TO FREEDOM, INC.

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RETURN TO FREEDOM, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

| <u>ASSETS</u> | | | | |
|-------------------------------------|----------------------------|--|--|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 31,862 | \$ - | \$ - | \$ 31,862 |
| Prepaid expenses | 7,000 | - | - | 7,000 |
| Inventory | 11,985 | - | - | 11,985 |
| Total current assets | 50,847 | - | - | 50,847 |
| Property and Equipment: | | | | |
| Computers | 18,763 | - | - | 18,763 |
| Equipment | 195,060 | - | - | 195,060 |
| Leasehold improvements | 388,914 | - | - | 388,914 |
| Total property and equipment | 602,737 | - | - | 602,737 |
| Less accumulated depreciation | (252,312) | - | - | (252,312) |
| Net property and equipment | 350,425 | - | - | 350,425 |
| Other Assets: | | | | |
| Investments | 1,050,958 | 25,119 | 167,700 | 1,243,777 |
| Due from (to) other funds | (30,195) | - | 30,195 | - |
| Advances | 4,064 | - | - | 4,064 |
| Total other assets | 1,024,827 | 25,119 | 197,895 | 1,247,841 |
| Total Assets | \$ 1,426,099 | \$ 25,119 | \$ 197,895 | \$ 1,649,113 |

| <u>LIABILITIES AND NET ASSETS</u> | | | | |
|--|---------------------|------------------|-------------------|---------------------|
| Current Liabilities: | | | | |
| Accounts payable | \$ 126,049 | \$ - | \$ - | \$ 126,049 |
| Accrued expenses | 203,462 | - | - | 203,462 |
| Current portion of notes payable | 11,677 | - | - | 11,677 |
| Total current liabilities | 341,188 | - | - | 341,188 |
| Long-Term Liabilities: | | | | |
| Notes payable, net of current portion | 27,728 | - | - | 27,728 |
| Total long-term liabilities | 27,728 | - | - | 27,728 |
| Total liabilities | 368,916 | - | - | 368,916 |
| Net Assets: | | | | |
| Board designated | 884,769 | - | - | 884,769 |
| Unrestricted | 172,414 | - | - | 172,414 |
| Total unrestricted | 1,057,183 | - | - | 1,057,183 |
| Temporarily restricted | - | 25,119 | - | 25,119 |
| Permanently restricted | - | - | 197,895 | 197,895 |
| Total net assets | 1,057,183 | 25,119 | 197,895 | 1,280,197 |
| Total Liabilities and Net Assets | \$ 1,426,099 | \$ 25,119 | \$ 197,895 | \$ 1,649,113 |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

| <u>ASSETS</u> | | | | |
|-------------------------------------|----------------------------|--|--|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 53,972 | \$ 156,000 | \$ - | \$ 209,972 |
| Prepaid expenses | 8,250 | - | - | 8,250 |
| Inventory | 5,926 | - | - | 5,926 |
| Total current assets | 68,148 | 156,000 | - | 224,148 |
| Property and Equipment: | | | | |
| Computers | 16,942 | - | - | 16,942 |
| Equipment | 148,359 | - | - | 148,359 |
| Leasehold improvements | 386,087 | - | - | 386,087 |
| Total property and equipment | 551,388 | - | - | 551,388 |
| Less accumulated depreciation | (215,136) | - | - | (215,136) |
| Net property and equipment | 336,252 | - | - | 336,252 |
| Other Assets: | | | | |
| Investments | 1,185,827 | - | 167,700 | 1,353,527 |
| Due from (to) other funds | (30,195) | - | 30,195 | - |
| Total other assets | 1,155,632 | - | 197,895 | 1,353,527 |
| Total Assets | \$ 1,560,032 | \$ 156,000 | \$ 197,895 | \$ 1,913,927 |

| <u>LIABILITIES AND NET ASSETS</u> | | | | |
|--|---------------------|-------------------|-------------------|---------------------|
| Current Liabilities: | | | | |
| Accounts payable | \$ 103,199 | \$ - | \$ - | \$ 103,199 |
| Accrued expenses | 192,456 | - | - | 192,456 |
| Current portion of notes payable | 8,994 | - | - | 8,994 |
| Total current liabilities | 304,649 | - | - | 304,649 |
| Long-Term Liabilities: | | | | |
| Notes payable, net of current portion | 13,347 | - | - | 13,347 |
| Total long-term liabilities | 13,347 | - | - | 13,347 |
| Total liabilities | 317,996 | - | - | 317,996 |
| Net Assets: | | | | |
| Board designated | 783,003 | - | - | 783,003 |
| Unrestricted | 459,033 | - | - | 459,033 |
| Total unrestricted | 1,242,036 | - | - | 1,242,036 |
| Temporarily restricted | - | 156,000 | - | 156,000 |
| Permanently restricted | - | - | 197,895 | 197,895 |
| Total net assets | 1,242,036 | 156,000 | 197,895 | 1,595,931 |
| Total Liabilities and Net Assets | \$ 1,560,032 | \$ 156,000 | \$ 197,895 | \$ 1,913,927 |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenue, gains and other support: | | | | |
| Special event revent, net of related expenses of \$2,035 | \$ 78,061 | \$ - | \$ - | \$ 78,061 |
| Contributions | 704,951 | 25,119 | - | 730,070 |
| Grants | 78,200 | - | - | 78,200 |
| Program income | 145,383 | - | - | 145,383 |
| Bequests | 315,873 | - | - | 315,873 |
| In-kind donated facilities | 60,000 | - | - | 60,000 |
| In-kind contributions | 35,770 | - | - | 35,770 |
| Product sales | 26,477 | - | - | 26,477 |
| Interest and dividend income | 29,073 | - | - | 29,073 |
| Realized and unrealized gain on investments | 138,548 | - | - | 138,548 |
| Miscellaneous income | 568 | - | - | 568 |
| Net assets released from restrictions | 156,000 | (156,000) | - | - |
| Total revenue, gains and other support | <u>1,768,904</u> | <u>(130,881)</u> | <u>-</u> | <u>1,638,023</u> |
| Expenses: | | | | |
| Program services | 1,500,880 | - | - | 1,500,880 |
| Management and general | 295,816 | - | - | 295,816 |
| Fundraising | 157,061 | - | - | 157,061 |
| Total expenses | <u>1,953,757</u> | <u>-</u> | <u>-</u> | <u>1,953,757</u> |
| Change in net assets | (184,853) | (130,881) | - | (315,734) |
| Net assets at beginning of year | <u>1,242,036</u> | <u>156,000</u> | <u>197,895</u> | <u>1,595,931</u> |
| Net assets at end of year | <u>\$ 1,057,183</u> | <u>\$ 25,119</u> | <u>\$ 197,895</u> | <u>\$ 1,280,197</u> |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenue, gains and other support: | | | | |
| Special event revenue, net of related expenses of \$0 | \$ 1,205 | \$ - | \$ - | \$ 1,205 |
| Contributions | 503,751 | 156,000 | - | 659,751 |
| Grants | 72,750 | - | - | 72,750 |
| Program income | 130,169 | - | - | 130,169 |
| Bequests | 367,581 | - | - | 367,581 |
| In-kind donated facilities | 60,000 | - | - | 60,000 |
| In-kind contributions | 900 | - | - | 900 |
| Product sales | 12,737 | - | - | 12,737 |
| Interest and dividend income | 45,434 | - | - | 45,434 |
| Realized and unrealized gain on investments | 83,465 | - | - | 83,465 |
| Miscellaneous income | 845 | - | - | 845 |
| Net assets released from restrictions | 46,340 | (46,340) | - | - |
| Total revenue, gains and other support | <u>1,325,177</u> | <u>109,660</u> | <u>-</u> | <u>1,434,837</u> |
| Expenses: | | | | |
| Program services | 1,255,046 | - | - | 1,255,046 |
| Management and general | 186,050 | - | - | 186,050 |
| Fundraising | 91,500 | - | - | 91,500 |
| Total expenses | <u>1,532,596</u> | <u>-</u> | <u>-</u> | <u>1,532,596</u> |
| Change in net assets | (207,419) | 109,660 | - | (97,759) |
| Net assets at beginning of year | <u>1,449,455</u> | <u>46,340</u> | <u>197,895</u> | <u>1,693,690</u> |
| Net assets at end of year | <u>\$ 1,242,036</u> | <u>\$ 156,000</u> | <u>\$ 197,895</u> | <u>\$ 1,595,931</u> |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|----------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and related expenses | \$ 391,663 | \$ 68,805 | \$ 68,805 | \$ 529,273 |
| Workers compensation insurance | 52,946 | 8,471 | 7,574 | 68,991 |
| Advertising and publicity | - | - | 3,083 | 3,083 |
| Animal maintenance | 394,407 | - | - | 394,407 |
| Automobile expenses | 15,655 | - | - | 15,655 |
| Bad debt expense | - | 12,969 | - | 12,969 |
| Bank fees | - | 12,211 | - | 12,211 |
| Contract services | 168,622 | 91,975 | 45,988 | 306,585 |
| Computer expenses | 16,945 | 16,945 | - | 33,890 |
| Credit card fees | - | 18,891 | - | 18,891 |
| Depreciation expense | 37,176 | - | - | 37,176 |
| Direct mail program | - | - | 15,534 | 15,534 |
| Donated services | 35,770 | - | - | 35,770 |
| Dues and subscriptions | - | 1,919 | - | 1,919 |
| Education expenses | 2,287 | - | - | 2,287 |
| Equipment rental and maintenance | 12,766 | - | - | 12,766 |
| Grounds and facility maintenance | 42,239 | - | - | 42,239 |
| In-kind donated facilities | 57,000 | 3,000 | - | 60,000 |
| Insurance | 11,448 | 4,906 | - | 16,354 |
| Investment fees | - | 12,118 | - | 12,118 |
| Merchandise fees | - | - | 9,830 | 9,830 |
| Miscellaneous expenses | - | 841 | - | 841 |
| Office expenses | - | 13,536 | - | 13,536 |
| On-site events | 20,721 | - | 1,091 | 21,812 |
| Printing fees | 3,338 | 834 | - | 4,172 |
| Professional fees | 50,821 | 26,426 | 1,565 | 78,812 |
| Rent | 48,000 | - | - | 48,000 |
| Rescues | 89,042 | - | - | 89,042 |
| Telephone | 8,845 | 983 | - | 9,828 |
| Travel | 32,316 | - | 3,591 | 35,907 |
| Utilities | 8,873 | 986 | - | 9,859 |
| Totals | <u>\$ 1,500,880</u> | <u>\$ 295,816</u> | <u>\$ 157,061</u> | <u>\$ 1,953,757</u> |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|----------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and related expenses | \$ 271,885 | \$ 18,126 | \$ 12,084 | \$ 302,095 |
| Workers compensation insurance | 71,105 | 4,740 | 3,160 | 79,005 |
| Advertising and publicity | 3,221 | - | 358 | 3,579 |
| Animal maintenance | 290,359 | - | - | 290,359 |
| Automobile expenses | 18,599 | 979 | - | 19,578 |
| Bank fees | - | 9,519 | - | 9,519 |
| Contract services | 98,559 | 53,759 | 26,880 | 179,198 |
| Computer expenses | 21,339 | 21,341 | - | 42,680 |
| Credit card fees | - | 16,348 | - | 16,348 |
| Depreciation expense | 40,245 | - | - | 40,245 |
| Direct mail program | - | - | 20,128 | 20,128 |
| Donated services | - | 900 | - | 900 |
| Dues and subscriptions | - | - | 815 | 815 |
| Education expenses | 3,154 | - | - | 3,154 |
| Equipment rental and maintenance | 8,792 | - | - | 8,792 |
| Grounds and facility maintenance | 88,075 | - | - | 88,075 |
| In-kind donated facilities | 57,000 | 3,000 | - | 60,000 |
| Insurance | 21,812 | 1,148 | - | 22,960 |
| Investment fees | - | 15,115 | - | 15,115 |
| Merchandise fees | - | - | 12,610 | 12,610 |
| Miscellaneous expenses | - | 710 | - | 710 |
| Office expenses | 10,966 | 1,371 | 1,371 | 13,708 |
| On-site events | 9,089 | - | 478 | 9,567 |
| Printing fees | 5,810 | 1,452 | - | 7,262 |
| Professional fees | 7,983 | 33,530 | 11,709 | 53,222 |
| Rent | 45,600 | 2,400 | - | 48,000 |
| Rescues | 250 | - | - | 250 |
| Telephone | 8,852 | 984 | - | 9,836 |
| Travel | 17,163 | - | 1,907 | 19,070 |
| Utilities | 5,652 | 628 | - | 6,280 |
| Loss on deconsolidation | 149,536 | - | - | 149,536 |
| Totals | <u>\$ 1,255,046</u> | <u>\$ 186,050</u> | <u>\$ 91,500</u> | <u>\$ 1,532,596</u> |

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ (315,734) | \$ (97,759) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 37,176 | 40,245 |
| Realized and unrealized gain on investments, net | (138,548) | (83,465) |
| Change in: | | |
| Inventory | (6,059) | (5,926) |
| Prepaid expenses | 1,250 | (4,250) |
| Deposits | (4,064) | 10,000 |
| Accounts payable and accrued expenses | <u>33,856</u> | <u>(111,838)</u> |
| Net cash used by operating activities | <u>(392,123)</u> | <u>(252,993)</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of investments | (198,486) | (447,785) |
| Sale of investments | 446,784 | 845,937 |
| Purchase of property and equipment | <u>(13,374)</u> | <u>(130,105)</u> |
| Net cash provided by investing activities | <u>234,924</u> | <u>268,047</u> |
| Cash Flows from Financing Activities: | | |
| Payments on notes payable | <u>(20,911)</u> | <u>(9,034)</u> |
| Net cash used by financing activities | <u>(20,911)</u> | <u>(9,034)</u> |
| Increase (decrease) in Cash and Cash Equivalents | (178,110) | 6,020 |
| Cash and Cash Equivalents at Beginning of Year | <u>209,972</u> | <u>203,952</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 31,862</u> | <u>\$ 209,972</u> |

Supplemental disclosure of cash flow information:

During 2017, the Organization acquired equipment totalling \$37,975 by entering into notes payable agreements.

See accompanying notes

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Nature of Activities

Return To Freedom, Inc. (the Organization) was formed as an animal sanctuary and educational retreat. The Organization provides a home for animals that may otherwise be slaughtered, abused, or left to roam without food or water. The focus of the Organization is wild horse rescue and sanctuary, education, and preservation of diverse natural herd groups.

Note 2 - Summary of Significant Accounting Policies

A) Basis of Presentation

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Contributions Received*, and ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. ASC 958-205 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to donor imposed restrictions. ASC 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and for the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of the Organization's activities. Designations by the Board of Directors are included in unrestricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts which may be fully expended but have been restricted by donors for certain purposes or are subject to time restrictions. Donor restricted contributions whose restrictions are met in the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Permanently Restricted Net Assets

Permanently restricted net assets include gifts and endowment funds, which require by donor restriction that the corpus be invested in perpetuity and only the income be made available to the Organization for use in accordance with donor restrictions.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

B) Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Without explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

C) Cash and Cash Equivalents

All highly liquid financial instruments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Amounts held as investments are not considered cash and cash equivalents for the purpose of the statement of cash flows.

D) Property and Equipment

Property and equipment acquisitions are recorded at cost, or if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Amortization of the leasehold improvements within an operating lease shall be amortized in accordance with ASC 840 over the shorter of the useful life of the improvements or the lease term, including additional renewal periods that are reasonably assured.

The estimated useful lives of the assets are as follows:

| | |
|-------------------------|--------------|
| Computers and equipment | 5 years |
| Leasehold improvements | 3 - 15 years |

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

E) Donated Services

The financial statements include \$35,770 and \$900 recorded for donated services provided to the Organization in unrestricted contributions and program expenses for the years ended December 31, 2017 and 2016, respectively. A substantial number of other volunteers, including the Board of Directors, have donated significant amounts of their time to the Organization. However, no amounts are reflected in the financial statements for these other donated services since no objective basis is available to measure the value of such services.

F) Investments

Investments are primarily investments in debt and equity securities that are carried at market value, with realized and unrealized gains and losses reported as changes in unrestricted net assets. The cost of securities sold is based on the specific identification method.

G) Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes on related income pursuant to Section 509(a)(1) of the Code. The Organization is not considered a private foundation for income tax purposes.

H) Functional Allocation of Expenses

The costs of providing the various programs and other supporting services have been summarized on a functional basis in the statement of functional expenses. Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on time spent in the various functions as estimated by the Organization's management.

I) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

J) Future Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The primary provisions are as follows:

1. Within the Statement of Financial Position, two net asset classes will be presented, *with donor restrictions* and *without donor restrictions*, rather than the three net asset classes currently required.
2. Within the Statement of Activities, the change in the two net asset classes will be presented, rather than the change in the three net asset classes currently required.
3. A reconciliation or disclosure of the indirect method for operating cash flows is no longer required within the Statement of Cash Flows if a not-for-profit entity is using the direct method.
4. Enhanced disclosures and presentation will be required, including but not limited to, reporting for underwater endowment funds to disclosure or presentation of expenses by both natural classification and functional classification.
5. Investment returns should be reported net of external and direct internal investment expenses, and no disclosure is required for the netted expenses.
6. In the absence of explicit donor stipulations, the placed-in-service approach can be used for reporting expirations of restrictions on assets in relation to acquiring or constructing a long-lived asset, eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset.

The guidance requires retrospective application in the year that this update is adopted. However, if presenting comparative financial statements, there is an option to omit information prior to the period of adoption. If any reclassifications or restatements are required in the period of implementation, the not-for-profit entity should disclose the nature and effect, if any, on changes in the net asset classes for each period presented. This amendment is effective for fiscal years beginning after December 15, 2017, with earlier application permitted. Management is currently in the process of evaluating the impact of this guidance on its financial position, results of operations, and cash flows.

Note 3 - Board Designated Net Assets

In 2010, the Board of Directors adopted an investment policy designating \$500,000 of an anonymous contribution as board designated net assets. Once this fund grows to \$1,000,000, a portion of the funds can be used for capital improvement projects upon Board approval. The Organization uses the income generated from board designated net assets for operations and the principal is maintained under the discretion of the Board. See Note 17 for a decision made by the Board of Directors subsequent to year-end.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Investments

Investments are recorded as follows as of December 31:

| | <u>2017</u> | <u>2016</u> |
|------------------------|---------------------|---------------------|
| Unrestricted | \$ 1,050,958 | \$ 1,185,827 |
| Temporarily restricted | 25,119 | - |
| Permanently restricted | <u>167,700</u> | <u>167,700</u> |
| | <u>\$ 1,243,777</u> | <u>\$ 1,353,527</u> |

Permanently restricted investments consist of funds to be held in perpetuity, the income from which is unrestricted. See Note 11.

Investments consist of the following as of December 31:

| | <u>2017</u> | | |
|-----------------------------------|---------------------|---------------------|---|
| | <u>Cost</u> | <u>Market</u> | <u>Excess of Market Over Cost</u> |
| Cash and cash equivalents | \$ 130,470 | \$ 130,470 | \$ - |
| Corporate stocks and equity funds | 355,346 | 394,808 | 39,462 |
| Exchange-traded funds | 560,655 | 708,870 | 148,215 |
| Bonds and bond funds | <u>9,567</u> | <u>9,629</u> | <u>62</u> |
| | <u>\$ 1,056,038</u> | <u>\$ 1,243,777</u> | <u>\$ 187,739</u> |
| | <u>2016</u> | | |
| | <u>Cost</u> | <u>Market</u> | <u>Excess of Market Over (Under) Cost</u> |
| Cash and cash equivalents | \$ 68,966 | \$ 68,966 | \$ - |
| Corporate stocks and equity funds | 521,347 | 511,407 | (9,940) |
| Exchange-traded funds | 632,478 | 702,173 | 69,695 |
| Bonds and bond funds | <u>70,460</u> | <u>70,981</u> | <u>521</u> |
| | <u>\$ 1,293,251</u> | <u>\$ 1,353,527</u> | <u>\$ 60,276</u> |

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Fair Value Measurements

The Financial Accounting Standards Board provides a framework for measuring fair value under accounting principles generally accepted in the United States of America and requires certain disclosures regarding fair value measurements for all assets and liabilities that are being measured and reported on a fair value basis. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The framework requires that assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Organization performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

During the years ended December 31, 2017 and 2016, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of those investments.

Mutual funds: Mutual funds are valued at the net asset value (NAV) of shares held at year end. The NAV is based on the value of the underlying securities which are valued based on quoted market prices, when available, or market prices provided by recognized broker dealers.

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NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Fair Value Measurements (continued)

Exchange-traded funds: Exchange-traded funds are generally valued at or near the net asset value (“NAV”) of the underlying assets held, however they trade on a stock exchange like a common stock. Therefore the market price of the exchange-traded fund is readily determinable by the current trading price on the stock exchange on which they are listed.

Fixed income: The fair value of fixed income investments is the market value based on quoted market prices, when available. If listed prices or quotes are not available, fair value is based on the investment’s net realizable value as determined by management.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets measured at fair value, on a recurring basis, as of December 31, 2017 and 2016.

| | December 31, 2017 | | | |
|--|--------------------------|---------------------|-------------|--------------|
| | Total | Quoted Prices in | Significant | Significant |
| | Fair Value | Active Markets for | Other | Unobservable |
| | | Identical Assets | Observable | Inputs |
| | | (Level 1) | Inputs | (Level 3) |
| | | | (Level 2) | |
| Cash equivalents included in investments | \$ 130,470 | \$ 130,470 | \$ - | \$ - |
| Mutual funds | 394,808 | 394,808 | - | - |
| Exchange-traded funds | 708,870 | 708,870 | - | - |
| Fixed income | 9,629 | 9,629 | - | - |
| | \$ 1,243,777 | \$ 1,243,777 | \$ - | \$ - |

| | December 31, 2016 | | | |
|--|--------------------------|---------------------|-------------|--------------|
| | Total | Quoted Prices in | Significant | Significant |
| | Fair Value | Active Markets for | Other | Unobservable |
| | | Identical Assets | Observable | Inputs |
| | | (Level 1) | Inputs | (Level 3) |
| | | | (Level 2) | |
| Cash equivalents included in investments | \$ 68,966 | \$ 68,966 | \$ - | \$ - |
| Mutual funds | 511,407 | 511,407 | - | - |
| Exchange-traded funds | 702,173 | 702,173 | - | - |
| Fixed income | 70,981 | 70,981 | - | - |
| | \$ 1,353,527 | \$ 1,353,527 | \$ - | \$ - |

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Income Tax Matters

The Organization has adopted the accounting for uncertainty in income tax positions contained within accounting principles generally accepted in the United States of America. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements to comply with the provisions of this guidance.

However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof. The Organization files income tax returns in the U.S. federal jurisdiction and in the state of California. The Organization is no longer subject to examination by U.S. federal tax authorities for the years before 2014 and by state of California tax authorities for years before 2013.

Note 7 - Endowment

The Organization's endowment was established for the purpose of attracting additional major donations and for the long-term needs of the Organization. The endowment includes one donor-restricted endowment fund and one fund designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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NOTES TO THE FINANCIAL STATEMENTS

Note 7 - Endowment (continued)

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Endowment net asset composition by type of fund as of December 31, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated endowment funds | \$ 884,769 | \$ - | \$ - | \$ 884,769 |
| Donor-restricted endowment funds | - | - | 197,895 | 197,895 |
| Total Endowment | <u>\$ 884,769</u> | <u>\$ -</u> | <u>\$ 197,895</u> | <u>\$ 1,082,664</u> |

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 783,003 | \$ - | \$ 197,895 | \$ 980,898 |
| Investment return: | | | | |
| Investment income | 18,061 | - | - | 18,061 |
| Net appreciation (realized and unrealized) | 113,455 | - | - | 113,455 |
| Withdrawals | (29,750) | - | - | (29,750) |
| Endowment net assets, end of year | <u>\$ 884,769</u> | <u>\$ -</u> | <u>\$ 197,895</u> | <u>\$ 1,082,664</u> |

Endowment net asset composition by type of fund as of December 31, 2016:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Board-designated endowment funds | \$ 783,003 | \$ - | \$ - | \$ 783,003 |
| Donor-restricted endowment funds | - | - | 197,895 | 197,895 |
| Total Endowment | <u>\$ 783,003</u> | <u>\$ -</u> | <u>\$ 197,895</u> | <u>\$ 980,898</u> |

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NOTES TO THE FINANCIAL STATEMENTS

Note 7 - Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets, beginning of year | \$ 703,465 | \$ - | \$ 197,895 | \$ 901,360 |
| Investment return: | | | | |
| Investment income | 13,709 | - | - | 13,709 |
| Net appreciation (realized and unrealized) | <u>65,829</u> | <u>-</u> | <u>-</u> | <u>65,829</u> |
| Endowment net assets, end of year | <u>\$ 783,003</u> | <u>\$ -</u> | <u>\$ 197,895</u> | <u>\$ 980,898</u> |

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a growth and income model in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy to appropriate for distribution amounts recommended by the investment committee such that real return from the fund remains positive. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

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NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Assets Released from Donor Restrictions

Net assets during December 31, 2017 and 2016 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Purpose restrictions accomplished: | | |
| Care and maintenance of the existing horses in the herds - Help Me Live Campaign | \$ 156,000 | \$ - |
| Care and maintenance of the existing horses in the herds | - | 8,380 |
| Purchase of water | - | 37,960 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 156,000</u> | <u>\$ 46,340</u> |

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Care and maintenance of existing horses in the herds - Help Me Live Campaign | \$ - | \$ 156,000 |
| Care and maintenance of existing horses in the Gila and Alliance herds | 25,119 | - |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 25,119</u> | <u>\$ 156,000</u> |

Note 10 - Accrued Liabilities

Amounts included in accrued liabilities are as follows at December 31:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Accrued vacation | \$ 33,418 | \$ 29,512 |
| Accrued salaries | 10,101 | 8,505 |
| Accrued payroll taxes, interest and penalties | 135,817 | 130,507 |
| Accrued credit cards | 24,126 | 23,932 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 203,462</u> | <u>\$ 192,456</u> |

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NOTES TO THE FINANCIAL STATEMENTS

Note 11 - Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2017 and 2016 consist of \$197,985 of investments to be held in perpetuity, the earnings on which are unrestricted.

Note 12 - Notes Payable

On March 25, 2015, the Organization financed equipment through a non-interest bearing note with Kubota Credit Corporation, issued for \$17,860. The note is payable in 48 monthly installments of \$372 beginning April 25, 2015. This note includes a security interest in the equipment until payments in full are received. This note matures on March 25, 2019. The outstanding note balance was \$3,911 and \$8,376 at December 31, 2017 and 2016, respectively.

On December 30, 2015, the Organization financed equipment through a non-interest bearing note with Kubota Credit Corporation, issued for \$18,117. The note is payable in 48 monthly installments of \$378 beginning February 3, 2016. This note includes a security interest in the equipment until payments in full are received. This note matures on December 30, 2019. This note was paid in full in November 2017. The outstanding note balance was \$0 and \$13,965 at December 31, 2017 and 2016, respectively.

On August 2, 2017, the Organization financed equipment through a non-interest bearing note with Kubota Credit Corporation, issued for \$18,376. The note is payable in 48 monthly installments of \$382 beginning September 6, 2017. This note includes a security interest in the equipment until payments in full are received. This note matures on August 6, 2021. The outstanding note balance was \$16,845 at December 31, 2017.

On August 4, 2017, the Organization financed equipment through a \$19,599 note entered into with Sheffield Financial. This note bears an interest rate of 11.99% and is payable in 60 monthly installments of \$436 beginning September 8, 2017. This note includes a security interest in the equipment until payments in full are received. This note matures on August 8, 2022. The outstanding note balance was \$18,649 at December 31, 2017.

Future minimum principal payments are as follows for the years ending December 31:

| | |
|------|------------------|
| 2018 | \$ 11,677 |
| 2019 | 8,168 |
| 2020 | 8,621 |
| 2021 | 7,600 |
| 2022 | <u>3,339</u> |
| | <u>\$ 39,405</u> |

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 13 - Contingencies

In 2013, the Organization learned that the independent contractor responsible for disbursing payroll taxes failed to do so during the period of 2011 through 2013. Nonetheless, per Internal Revenue Service (IRS) regulations, the Organization is liable for the unpaid taxes. In accordance with this regulation and relevant accounting principles, the Organization has accrued liabilities equal to the outstanding amount payable per the latest communication from the IRS. The accrued liability amounted to \$135,817 and \$130,507 as of December 31, 2017 and 2016, respectively.

Note 14 - Retirement Plan

The Organization has adopted a retirement plan under Internal Revenue Code Section 403(b). Substantially all employees are eligible to participate on the first anniversary of their employment commencement date. The Organization's contributions to the plan are at the discretion of the Board of Directors. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Organization's discretionary contributions plus actual earnings thereon is based on years of continuous service. A participant is 100 percent vested after six years of credited service. The Organization did not make any contributions to the plan during the years ended December 31, 2017 and 2016, respectively.

Note 15 - Related Party Transactions

Lease Obligation

The Organization leases its administrative office and ranch facilities from the President of the Organization and a family member. The facilities include approximately 300 acres of grazing pastures, horse barns, and veterinary facilities. As a condition of the lease, the Organization is responsible for maintenance expenses of the property. Beginning in July 2012, the Organization agreed to pay \$4,000 on a monthly basis through July 28, 2014. In August 2014, this lease was renewed with similar terms through July 28, 2015 and contains an auto renewal feature for future years. For the years ended December 31, 2017 and 2016, the Organization paid a total of \$48,000 and \$48,000, respectively, in rent payments. The current lease expired July 28, 2015 and was automatically renewed on a month-to-month basis per the provisions in the lease agreement. See Note 17 for changes to the lease agreement subsequent to year-end.

Management estimates the full value of the property at \$9,000 a month. The Organization has recorded the donated use of facilities at the estimated fair market value of the facilities less the actual amounts paid as in-kind donated facilities. For the years ended December 31, 2017 and 2016, the Organization reported \$60,000, respectively, in donated facilities.

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NOTES TO THE FINANCIAL STATEMENTS

Note 16 – Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to current year presentation.

Note 17 - Subsequent Events

Subsequent events have been evaluated through November 3, 2023, the date that the financial statements were available for issuance.

On January 2, 2018, the Organization entered into a Pasture License Agreement, granting the Organization a non-exclusive, non-assignable and non-sublicensable license to use approximately 1,800 acres of pastureland for grazing purposes. Fees will be \$58.50 per month per horse one year or older, while fees for horses under one year will be \$30.00 per horse per month. The term of this agreement is through September 1, 2018.

In 2019, the Board unrestricted all non-donor-restricted funds in the endowment account and permitted them to be used for operations.

On May 7, 2020, the Organization received a Payroll Protection Program (PPP) Loan in the amount of \$145,500. This loan was fully forgiven on March 1, 2021.

On March 26, 2021, the Organization received a Second Draw PPP Loan in the amount of \$166,261. This loan was fully forgiven on March 28, 2022.

On October 1, 2021, the Organization entered into an amended and renewed lease agreement that includes an auto-renewal provision and increased annual rent due from \$48,000 to \$60,000.

On July 1, 2022, the Organization entered into an amended and renewed lease agreement that includes an auto-renewal provision and increased annual rent due from \$60,000 to \$144,000.