

**RETURN TO FREEDOM, INC.**

**DECEMBER 31, 2018 AND 2017**

**FINANCIAL STATEMENTS**



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

# RETURN TO FREEDOM, INC.

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of  
Return to Freedom, Inc.:**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Return to Freedom, Inc. (a non-profit Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Return to Freedom, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Bartlett, Pring & Wolf, LLP*

Santa Barbara, California

May 1, 2024

**RETURN TO FREEDOM, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 259,010	\$ 31,862
Receivables	200	-
Prepaid expenses	8,250	7,000
Inventory	15,710	11,985
Total current assets	283,170	50,847
Property and Equipment:		
Computers	18,763	18,763
Equipment	217,603	195,060
Leasehold improvements	428,914	388,914
Total property and equipment	665,280	602,737
Less accumulated depreciation	(288,122)	(252,312)
Net property and equipment	377,158	350,425
Other Assets:		
Investments	637,116	1,243,777
Advances	4,064	4,064
Total other assets	641,180	1,247,841
Total Assets	\$ 1,301,508	\$ 1,649,113

*See accompanying notes*

**RETURN TO FREEDOM, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts payable	\$ 278,435	\$ 126,049
Accrued expenses	191,345	203,462
Current portion of notes payable	9,284	11,677
Total current liabilities	<u>479,064</u>	<u>341,188</u>
Long-Term Liabilities:		
Notes payable, net of current portion	<u>19,560</u>	<u>27,728</u>
Total long-term liabilities	<u>19,560</u>	<u>27,728</u>
Total liabilities	<u>498,624</u>	<u>368,916</u>
Net Assets:		
Without donor restrictions		
Board designated	409,539	884,769
Undesignated	110,345	172,414
Total without donor restrictions	<u>519,884</u>	<u>1,057,183</u>
With donor restrictions	<u>283,000</u>	<u>223,014</u>
Total net assets	<u>802,884</u>	<u>1,280,197</u>
Total Liabilities and Net Assets	<u>\$ 1,301,508</u>	<u>\$ 1,649,113</u>

*See accompanying notes*

**RETURN TO FREEDOM, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Changes in Net Assets Without Donor Restrictions:		
Operating Revenue and Support:		
Special events, net of related expenses of \$9,676 and \$11,715 in 2018 and 2017, respectively	\$ 74,699	\$ 78,061
Contributions	181,694	704,951
Grants	317,200	78,200
Program income	168,781	145,383
Bequests	98,601	315,873
In-kind donated facilities	60,000	60,000
In-kind contributions	69,969	35,770
Product sales	28,417	26,477
Interest and dividend income	23,721	29,073
Realized and unrealized gain (loss) on investments	(86,945)	138,548
Miscellaneous income	384	568
Net assets released from restrictions	<u>461,421</u>	<u>156,000</u>
Total operating revenue	<u>1,397,942</u>	<u>1,768,904</u>
Operating Expenses:		
Program services	1,495,806	1,500,880
Management and general	286,112	295,816
Fundraising	<u>153,274</u>	<u>157,061</u>
Total operating expenses	<u>1,935,192</u>	<u>1,953,757</u>
Loss from operations	<u>(537,250)</u>	<u>(184,853)</u>
Loss on disposal of equipment	<u>(49)</u>	<u>-</u>
Decrease in net assets without donor restrictions	(537,299)	(184,853)
Changes in Net Assets with Donor Restrictions:		
Contributions with donor restrictions	521,407	25,119
Net assets released from restrictions	<u>(461,421)</u>	<u>(156,000)</u>
Decrease in net assets with donor restrictions	<u>59,986</u>	<u>(130,881)</u>
Change in net assets	(477,313)	(315,734)
Net assets at beginning of year	<u>1,280,197</u>	<u>1,595,931</u>
Net assets at end of year	<u>\$ 802,884</u>	<u>\$ 1,280,197</u>

*See accompanying notes*

**RETURN TO FREEDOM, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (477,313)	\$ (315,734)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	50,682	37,176
Loss on disposal of equipment	49	-
Realized and unrealized (gain) loss on investments	86,945	(138,548)
(Increase) decrease in:		
Accounts receivable	(200)	-
Inventory	(3,725)	(6,059)
Prepaid expenses	(1,250)	1,250
Advances	-	(4,064)
Increase in:		
Accounts payable and accrued expenses	140,269	33,856
Net cash used by operating activities	<u>(204,543)</u>	<u>(392,123)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(245,161)	(198,486)
Sale of investments	764,877	446,784
Proceeds from the disposal of equipment	10,303	-
Purchase of property and equipment	<u>(87,767)</u>	<u>(13,374)</u>
Net cash provided by investing activities	<u>442,252</u>	<u>234,924</u>
Cash Flows from Financing Activities:		
Payments on notes payable	<u>(10,561)</u>	<u>(20,911)</u>
Net cash used by financing activities	<u>(10,561)</u>	<u>(20,911)</u>
Net increase (decrease) in cash and cash equivalents	227,148	(178,110)
Cash and cash equivalents, beginning of year	<u>31,862</u>	<u>209,972</u>
Cash and cash equivalents, end of year	<u>\$ 259,010</u>	<u>\$ 31,862</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.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 459,687	\$ 80,756	\$ 80,757	\$ 621,200
Employee benefits	66,471	11,677	11,678	89,826
Advertising and publicity	-	-	11,451	11,451
Animal maintenance	297,888	-	-	297,888
Automobile expenses	25,567	-	-	25,567
Bank fees	-	20,136	-	20,136
Contract services	108,646	59,262	29,631	197,539
Computer expenses	16,113	16,112	-	32,225
Credit card fees	-	15,694	-	15,694
Depreciation expense	50,682	-	-	50,682
Direct mail program	-	-	6,784	6,784
Donated services	69,897	-	-	69,897
Dues and subscriptions	-	1,195	-	1,195
Education expenses	1,372	-	-	1,372
Equipment rental and maintenance	6,009	-	-	6,009
Grounds and facility maintenance	19,483	-	-	19,483
In-kind donated facilities	57,000	3,000	-	60,000
Insurance	20,683	8,864	-	29,547
Investment fees	-	10,861	-	10,861
Merchandise fees	-	-	8,619	8,619
Miscellaneous expenses	-	8,948	-	8,948
Office expenses	-	22,336	-	22,336
On-site events	10,285	-	541	10,826
Printing fees	6,934	1,733	-	8,667
Professional fees	44,460	23,619	1,389	69,468
Rent	195,549	-	-	195,549
Telephone	9,142	1,016	-	10,158
Travel	21,813	-	2,424	24,237
Utilities	8,125	903	-	9,028
Totals	<u>\$ 1,495,806</u>	<u>\$ 286,112</u>	<u>\$ 153,274</u>	<u>\$ 1,935,192</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.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**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) Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for current support of Organization activities and not subject to donor restrictions. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

B) 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.

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 2 - Summary of Significant Accounting Policies (continued)**

C) 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 – 7 years
Leasehold improvements	3 - 15 years

D) Donated Services

The financial statements include \$69,897 and \$35,770 recorded for donated services provided to the Organization in unrestricted contributions and program expenses for the years ended December 31, 2018 and 2017, 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.

E) 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.

F) 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.

G) 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.

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 2 - Summary of Significant Accounting Policies (continued)**

H) 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.

I) Recent Accounting Updates

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which is intended to simplify how a not-for-profit presents net assets and other information in the financial statements. This ASU specifically focuses on the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, lack of consistency in the type of information provided about expenses and investment return, and misunderstandings about and opportunities to enhance the utility of the statement of cash flows. The Organization adopted ASU 2016-14 for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08). This ASU clarifies and improves guidance concerning 1) the determination whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) determining whether a contribution is conditional or unconditional. ASU 2018-08 is effective for the Organization for the year ended December 31, 2019 and should be applied on a modified prospective basis. Management is currently in the process of evaluating the impact of this guidance on its financial statements and related disclosures.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09) and has subsequently issued a number of amendments to ASU 2014-09. The new standard, as amended, supersedes nearly all existing revenue recognition guidance, including industry specific guidance and requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This ASU is effective for the Organization for the year ended December 31, 2019. Management is currently in the process of evaluating the impact of this guidance on its financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (ASU 2016-02). This ASU provides accounting guidance for both lessee and lessor accounting models. Among other things, lessees will recognize a right-of-use asset and a lease liability for leases with a duration of greater than one year. For income statement purposes, ASU 2016-02 will require leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 2 - Summary of Significant Accounting Policies (continued)**

I) Recent Accounting Updates (continued)

new standard will be effective for the Organization for the year ended December 31, 2020. Management is currently in the process of evaluating the impact of this guidance on its financial statements and related disclosures.

**Note 3 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 259,010	\$ 31,862
Accounts receivable	200	-
Investments	637,116	1,243,777
Less net assets with donor restrictions	<u>(283,000)</u>	<u>(223,014)</u>
	<u>\$ 613,326</u>	<u>\$ 1,052,625</u>

**Note 4 - 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**

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**Note 5 - Investments**

Investments consist of the following as of December 31:

	2018		
	Cost	Market	Excess of Market Over Cost
Cash and cash equivalents	\$ (275,927)	\$ (275,927)	\$ -
Corporate stocks and equity funds	323,944	319,886	(4,058)
Exchange-traded funds	510,577	593,157	82,580
	\$ 558,594	\$ 637,116	\$ 78,522
	2017		
	Cost	Market	Excess of Market Over Cost
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	9,567	9,629	62
	\$ 1,056,038	\$ 1,243,777	\$ 187,739

**Note 6 - 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:

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 6 - Fair Value Measurements (continued)**

- 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, 2018 and 2017, 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.

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Note 6 - 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, 2018 and 2017.

	<b>December 31, 2018</b>			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents included in investments	\$ (275,927)	\$ (275,927)	\$ -	\$ -
Mutual funds	319,886	319,886	-	-
Exchange-traded funds	593,157	593,157	-	-
Total assets, at fair value	\$ 637,116	\$ 637,116	\$ -	\$ -

	<b>December 31, 2017</b>			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	-	-
Total assets, at fair value	\$ 1,243,777	\$ 1,243,777	\$ -	\$ -

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 7 - 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 2015 and by state of California tax authorities for years before 2014.

**Note 8 - 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.

**RETURN TO FREEDOM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 8 - 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, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 409,539	\$ -	\$ 409,539
Donor-restricted endowment funds	-	197,895	197,895
<b>Total Endowment</b>	<b>\$ 409,539</b>	<b>\$ 197,895</b>	<b>\$ 607,434</b>

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 884,769	\$ 197,895	\$ 1,082,664
Investment return:			
Investment income	13,308	-	13,308
Net depreciation (realized and unrealized)	(94,873)	-	(94,873)
Withdrawals	(393,665)	-	(393,665)
<b>Endowment net assets, end of year</b>	<b>\$ 409,539</b>	<b>\$ 197,895</b>	<b>\$ 607,434</b>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 884,769	\$ -	\$ 884,769
Donor-restricted endowment funds	-	197,895	197,895
<b>Total Endowment</b>	<b>\$ 884,769</b>	<b>\$ 197,895</b>	<b>\$ 1,082,664</b>

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**Note 8 - Endowment (continued)**

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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	<u>(29,750)</u>	<u>-</u>	<u>(29,750)</u>
Endowment net assets, end of year	<u>\$ 884,769</u>	<u>\$ 197,895</u>	<u>\$ 1,082,664</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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**Note 9 - Net Assets Released from Donor Restrictions**

Net assets during December 31, 2018 and 2017 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished:		
Operations support	\$ 205,000	\$ -
Help me live campaign	67,210	156,000
Alliance expenses	635	-
Wild horse monitoring and range expenses	32,202	-
Vet fund	18,318	-
Sponsor a bale campaign	20,469	-
Sponsor a horse campaign	86,707	-
Fill the bucket campaign	5,761	-
Care and maintenance of Gila and Alliance herds	25,119	-
	<u>\$ 461,421</u>	<u>\$ 156,000</u>
Total	<u>\$ 461,421</u>	<u>\$ 156,000</u>

**Note 10 - Net Assets With Donor Restrictions**

Net assets with donor restrictions as of December 31, 2018 and 2017 are comprised of the following:

	<u>2018</u>	<u>2017</u>
Land purchase	\$ 10,105	\$ -
Wildlife biologist position	75,000	-
Care and maintenance of Gila and Alliance herds		25,119
Endowment	197,895	197,895
	<u>\$ 283,000</u>	<u>\$ 223,014</u>
Total	<u>\$ 283,000</u>	<u>\$ 223,014</u>

**Note 11 - Accrued Liabilities**

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

	<u>2018</u>	<u>2017</u>
Accrued vacation	\$ 33,418	\$ 33,418
Accrued salaries	10,101	10,101
Accrued payroll taxes, interest and penalties	142,276	135,817
Accrued credit cards	5,550	24,126
	<u>\$ 191,345</u>	<u>\$ 203,462</u>
Total	<u>\$ 191,345</u>	<u>\$ 203,462</u>

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**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 \$1,116 and \$3,911 at December 31, 2018 and 2017, 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.

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 \$12,251 and \$16,845 at December 31, 2018 and 2017, respectively.

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 \$15,477 and \$18,649 at December 31, 2018 and 2017, respectively.

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

2019	\$	9,284
2020		8,621
2021		7,600
2022		<u>3,339</u>
	\$	<u>28,844</u>

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**Note 13 - Commitments and Contingencies**

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 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 \$142,276 and \$135,817 as of December 31, 2018 and 2017, 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, 2018 and 2017, 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. The lease was automatically renewed on a month-to-month basis per the provisions in the lease agreement. For the years ended December 31, 2018 and 2017, the Organization paid a total of \$48,000 and \$48,000, respectively, in rent payments. See Note 18 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, 2018 and 2017, the Organization reported \$60,000, in donated facilities.

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**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 May 1, 2024, the date that the financial statements were available for issuance.

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.