

RETURN TO FREEDOM, INC.

DECEMBER 31, 2021 AND 2020

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.:**

Opinion

We have audited the financial statements of Return to Freedom, Inc. (a non-profit Organization), which comprise the statement of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the 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 the Organization'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 GAAS 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 GAAS, 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 the Organization'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 the Organization'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.

Bartlett, Pugh + Wolf, LLP
Santa Barbara, California
September 3, 2024

RETURN TO FREEDOM, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 858,894	\$ 1,008,513
Receivables	5,397	10,684
Inventory	17,702	14,289
Total current assets	881,993	1,033,486
Property and Equipment:		
Computers	18,763	18,763
Equipment	340,825	319,909
Leasehold improvements	666,148	648,198
Total property and equipment	1,025,736	986,870
Less accumulated depreciation	(517,061)	(441,074)
Net property and equipment	508,675	545,796
Other Assets:		
Investments	510,986	312,572
Total Assets	\$ 1,901,654	\$ 1,891,854

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2021 and 2020

	2021	2020
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 6,057	\$ 37,993
Accrued expenses	245,174	223,068
Current portion of notes payable	170,097	7,600
Total current liabilities	421,328	268,661
Long-Term Liabilities:		
Notes payable, net of current portion	8,631	158,645
Total long-term liabilities	8,631	158,645
Total liabilities	429,959	427,306
Net Assets:		
Without donor restrictions	1,263,695	1,232,635
With donor restrictions	208,000	231,913
Total net assets	1,471,695	1,464,548
Total Liabilities and Net Assets	\$ 1,901,654	\$ 1,891,854

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in Net Assets Without Donor Restrictions:		
Operating Revenue and Support:		
Special events, net of related expenses of \$7,042 and \$3,449 in 2021 and 2020, respectively	\$ 47,869	\$ 46,669
Contributions	1,164,201	630,759
Grants	466,500	317,000
Bequests	434,395	1,432,947
In-kind donated facilities	60,000	60,000
In-kind contributions	82,923	38,834
Product sales	24,780	19,663
Interest and dividend income	8,467	5,143
Realized and unrealized gain on investments	55,142	18,953
Miscellaneous income	40,589	10,048
Net assets released from restrictions	23,913	183,676
Total operating revenue	<u>2,408,779</u>	<u>2,763,692</u>
Operating Expenses:		
Program services	1,849,545	1,354,611
Management and general	318,247	292,834
Fundraising	209,685	212,754
Total operating expenses	<u>2,377,477</u>	<u>1,860,199</u>
Income from operations	31,302	903,493
Loss on disposal of equipment	(242)	-
Increase in net assets without donor restrictions	31,060	903,493
Changes in Net Assets With Donor Restrictions:		
Contributions with donor restrictions	-	195,012
Net assets released from restrictions	(23,913)	(183,676)
Increase (decrease) in net assets with donor restrictions	<u>(23,913)</u>	<u>11,336</u>
Change in net assets	7,147	914,829
Net assets at beginning of year	<u>1,464,548</u>	<u>549,719</u>
Net assets at end of year	<u>\$ 1,471,695</u>	<u>\$ 1,464,548</u>

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 7,147	\$ 914,829
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	90,874	89,227
Loss on disposal of equipment	242	-
Realized and unrealized gain on investments	(55,142)	(18,953)
Loan forgiveness	(155,500)	-
(Increase) decrease in:		
Receivables	5,287	(10,684)
Inventory	(3,413)	(1,434)
Advances	-	4,064
Decrease in:		
Accounts payable and accrued expenses	(9,830)	(124,450)
Related party payable	-	(26,000)
	<u>(120,335)</u>	<u>826,599</u>
Cash Flows from Investing Activities:		
Purchases of investments	(143,272)	(170,059)
Sale of investments	-	158,408
Proceeds from the disposal of equipment	3,500	-
Purchase of property and equipment	(57,495)	(95,038)
	<u>(197,267)</u>	<u>(106,689)</u>
Cash Flows from Financing Activities:		
Payments on notes payable	(13,621)	(8,814)
Issuance of new loans	181,604	155,500
	<u>167,983</u>	<u>146,686</u>
Net increase (decrease) in cash and cash equivalents	(149,619)	866,596
Cash and cash equivalents, beginning of year	<u>1,008,513</u>	<u>141,917</u>
Cash and cash equivalents, end of year	<u>\$ 858,894</u>	<u>\$ 1,008,513</u>

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 597,597	\$ 104,983	\$ 104,983	\$ 807,563
Employee benefits	50,010	8,786	8,786	67,582
Animal maintenance	505,785	-	-	505,785
Automobile expenses	25,601	-	-	25,601
Bank fees	-	15,072	-	15,072
Contract services	52,454	28,611	14,306	95,371
Depreciation expense	90,874	-	-	90,874
Direct mail program	-	-	63,396	63,396
Donated services	82,923	-	-	82,923
Dues and subscriptions	-	5,195	-	5,195
Education expenses	806	-	-	806
Equipment rental and maintenance	11,748	-	-	11,748
Grounds and facility maintenance	127,535	-	-	127,535
In-kind donated facilities	57,000	3,000	-	60,000
Insurance	29,217	12,522	-	41,739
Investment fees	-	4,424	-	4,424
Merchandise fees	-	-	12,401	12,401
Office expenses	-	65,007	-	65,007
Professional fees	132,984	70,647	4,156	207,787
Rent	70,100	-	-	70,100
Travel and business meals	14,911	-	1,657	16,568
Totals	<u>\$ 1,849,545</u>	<u>\$ 318,247</u>	<u>\$ 209,685</u>	<u>\$ 2,377,477</u>

See accompanying notes

RETURN TO FREEDOM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 437,665	\$ 76,887	\$ 76,888	\$ 591,440
Employee benefits	60,810	10,683	10,683	82,176
Animal maintenance	359,832	-	-	359,832
Automobile expenses	12,930	-	-	12,930
Bank fees	-	13,263	-	13,263
Contract services	46,386	25,301	12,651	84,338
Depreciation expense	89,227	-	-	89,227
Direct mail program	-	-	97,759	97,759
Donated services	38,834	-	-	38,834
Dues and subscriptions	-	7,090	-	7,090
Education expenses	500	-	-	500
Equipment rental and maintenance	3,249	-	-	3,249
Grounds and facility maintenance	45,708	-	-	45,708
In-kind donated facilities	57,000	3,000	-	60,000
Insurance	24,938	10,687	-	35,625
Investment fees	-	2,745	-	2,745
Merchandise fees	-	-	9,914	9,914
Office expenses	-	83,343	-	83,343
Professional fees	112,630	59,835	3,520	175,985
Rent	52,850	-	-	52,850
Travel and business meals	12,052	-	1,339	13,391
Totals	<u>\$ 1,354,611</u>	<u>\$ 292,834</u>	<u>\$ 212,754</u>	<u>\$ 1,860,199</u>

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) 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

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 \$82,923 and \$38,834 recorded for donated services provided to the Organization in unrestricted contributions and program expenses for the years ended December 31, 2021 and 2020, 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 net assets without donor restrictions. 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

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 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 FASB issued ASU 2020-05, “Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)”, which deferred the effective date for these standards. The new standard will be effective for the Foundation for the year ending December 31, 2022. Management is currently in the process of evaluating the impact of this guidance on its financial position, results of operations, and cash flows.

In September 2020, the FASB issued Accounting Standards Update No. 2020-07 on Topic 958, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07). The new standard requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. The new standard is required to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is not allowed. Management is currently in the process of evaluating the impact of this guidance on its financial position, results of operations, and cash flows.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

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:

	2021	2020
Cash and cash equivalents	\$ 858,894	\$ 1,008,513
Receivables	5,397	10,684
Investments	510,986	312,572
Less net assets with donor restrictions	(208,000)	(231,913)
	\$ 1,167,277	\$ 1,099,856

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.

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

Note 5 - Investments

Investments consist of the following as of December 31:

	2021		
	Cost	Market	Excess of Market Over Cost
Cash and cash equivalents	\$ 28,331	\$ 28,331	\$ -
Corporate stocks and equity funds	232,139	337,452	105,313
Exchange-traded funds	140,458	145,203	4,745
	\$ 400,928	\$ 510,986	\$ 110,058

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Investments (continued)

	2020		
	Cost	Market	Excess of Market Over Cost
Cash and cash equivalents	\$ 5,106	\$ 5,106	\$ -
Corporate stocks and equity funds	208,810	242,483	33,673
Exchange-traded funds	61,310	64,983	3,673
	\$ 275,226	\$ 312,572	\$ 37,346

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:

- 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.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Fair Value Measurements (continued)

During the years ended December 31, 2021 and 2020, 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.

Exchange-traded funds: Exchange-traded funds are generally valued at or near the 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.

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, 2021 and 2020.

December 31, 2021				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total Fair Value	\$	\$	\$	\$
Cash equivalents included in investments	28,331	28,331	-	-
Mutual funds	337,452	337,452	-	-
Exchange-traded funds	145,203	145,203	-	-
Total assets, at fair value	\$ 510,986	\$ 510,986	\$ -	\$ -
December 31, 2020				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total Fair Value	\$	\$	\$	\$
Cash equivalents included in investments	5,106	5,106	-	-
Mutual funds	242,483	242,483	-	-
Exchange-traded funds	64,983	64,983	-	-
Total assets, at fair value	\$ 312,572	\$ 312,572	\$ -	\$ -

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

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 2018 and by state of California tax authorities for years before 2017.

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. 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

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, 2021 and 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds	-	197,895	197,895
Total Endowment	<u>\$ -</u>	<u>\$ 197,895</u>	<u>\$ 197,895</u>

Changes in endowment net assets for the year ended December 31, 2021 and 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 197,895	\$ 197,895
Release from board-designated funds	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 197,895</u>	<u>\$ 197,895</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. 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.

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Endowment (continued)

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.

Note 9 - Net Assets Released from Donor Restrictions

Net assets during the years ending December 31, 2021 and 2020 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Help me live campaign	\$ -	\$ 4,803
Wild horse monitoring and range expenses	-	26,023
Vet fund	-	9,393
Sponsor a bale campaign	-	71,793
Supplemental feed for geriatric horses	-	13,000
Wildlife biologist position	<u>23,913</u>	<u>58,664</u>
Total	<u>\$ 23,913</u>	<u>\$ 183,676</u>

RETURN TO FREEDOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2021 and 2020 are comprised of the following:

	<u>2021</u>	<u>2020</u>
Land purchase	\$ 10,105	\$ 10,105
Wildlife biologist position	-	23,913
Endowment	<u>197,895</u>	<u>197,895</u>
 Total	 <u>\$ 208,000</u>	 <u>\$ 231,913</u>

Note 11 - Accrued Liabilities

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

	<u>2021</u>	<u>2020</u>
Accrued vacation	\$ 53,652	\$ 41,772
Accrued salaries	10,101	10,101
Accrued payroll taxes, interest and penalties	161,925	153,190
Accrued credit cards	<u>19,496</u>	<u>18,005</u>
 Total	 <u>\$ 245,174</u>	 <u>\$ 223,068</u>

Note 12 - Notes Payable

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 \$0 and \$3,063 at December 31, 2021 and 2020, 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 \$0 and \$7,876 at December 31, 2021 and 2020, respectively.

On May 1, 2020, the Organization received loan proceeds of \$145,500 under the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief and Economic

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NOTES TO THE FINANCIAL STATEMENTS

Note 12 - Notes Payable (continued)

Security Act (CARES Act). The loan has an interest rate of 1.00% and maturity date of May 1, 2022. This loan was fully forgiven on March 1, 2021.

On April 24, 2020, the Organization received loan proceeds of \$10,000 under the Economic Injury Disaster Loan (EIDL) program established as part of the CARES Act. The Organization met the eligibility requirements for forgiveness and was recognized as grant income in 2021.

On March 17, 2021, the Organization financed equipment through a \$15,343 note entered into with John Deere Financial. This note is payable in 48 monthly installments of \$320 beginning April 17, 2021. The note includes a security interest in the equipment until payments in full are received. This note matures on March 17, 2025. The outstanding note balance was \$12,467 at December 31, 2021.

On March 26, 2021, the Organization received a Second Draw PPP Loan in the amount of \$166,261. The loan has an interest rate of 1.00% and maturity date of March 26, 2026. This loan was fully forgiven on March 28, 2022.

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

2022	\$ 170,097
2023	3,836
2024	3,836
2025	959
	<u>\$ 178,728</u>

Note 13 - Commitments and 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 \$161,925 and \$153,190 as of December 31, 2021 and 2020, respectively.

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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, 2021 and 2020, 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, 2021 and 2020, the Organization paid a total of \$51,000 and \$48,000, respectively, in rent payments.

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.

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, 2021 and 2020, the Organization reported \$60,000, in donated facilities.

Note 15 - Subsequent Events

Subsequent events have been evaluated through September 3, 2024, the date that the financial statements were available for issuance.

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.