

**RETURN TO FREEDOM, INC.**

**AND SUBSIDIARY**

**DECEMBER 31, 2015**

**CONSOLIDATED**

**FINANCIAL STATEMENTS**



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

# RETURN TO FREEDOM, INC. AND SUBSIDIARY

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

## **Independent Accountant's Review Report**

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

We have reviewed the accompanying consolidated financial statements of Return to Freedom, Inc. and Subsidiary (a non-profit Organization), which comprise the consolidated statement of financial position as of December 31, 2015, the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*Bartlett, Pringle + Wolf, LLP*

December 12, 2016  
Santa Barbara, California

**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2015**  
**(Unaudited - See Independent Accountant's Review Report)**

	<b><u>ASSETS</u></b>			
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Current Assets:				
Cash and cash equivalents	\$ 164,261	\$ 46,340	\$ -	\$ 210,601
Prepaid expenses	8,241	-	-	8,241
Total current assets	172,502	46,340	-	218,842
Property and Equipment:				
Computers	32,811	-	-	32,811
Equipment	145,204	-	-	145,204
Leasehold improvements	258,951	-	-	258,951
Total property and equipment	436,966	-	-	436,966
Less accumulated depreciation	(185,996)	-	-	(185,996)
Net property and equipment	250,970	-	-	250,970
Other Assets:				
Investments	1,500,514	-	167,700	1,668,214
Due from (to) other funds	(30,195)	-	30,195	-
Deposits	10,000	-	-	10,000
Total other assets	1,480,319	-	197,895	1,678,214
Total Assets	<u>\$ 1,903,791</u>	<u>\$ 46,340</u>	<u>\$ 197,895</u>	<u>\$ 2,148,026</u>

	<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current Liabilities:				
Accounts payable	\$ 136,691	\$ -	\$ -	\$ 136,691
Accrued expenses	283,239	-	-	283,239
Current portion of notes payable	8,617	-	-	8,617
Total current liabilities	428,547	-	-	428,547
Long-Term Liabilities:				
Notes payable, net of current portion	22,758	-	-	22,758
Total long-term liabilities	22,758	-	-	22,758
Net Assets:				
Board designated	703,465	-	-	703,465
Unrestricted	749,021	-	-	749,021
Total unrestricted	1,452,486	-	-	1,452,486
Temporarily restricted	-	46,340	-	46,340
Permanently restricted	-	-	197,895	197,895
Total net assets	1,452,486	46,340	197,895	1,696,721
Total Liabilities and Net Assets	<u>\$ 1,903,791</u>	<u>\$ 46,340</u>	<u>\$ 197,895</u>	<u>\$ 2,148,026</u>

*See accompanying notes*

**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2015**  
**(Unaudited - See Independent Accountant's Review Report)**

	<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 \$3,869	\$ 19,871	\$ -	\$ -	\$ 19,871
Contributions	1,001,433	46,340	-	1,047,773
Grants	41,900	-	-	41,900
Program income	151,319	-	-	151,319
Bequests	66,540	-	-	66,540
In-kind donated facilities	54,000	-	-	54,000
In-kind contributions	11,200	-	-	11,200
Product sales	13,771	-	-	13,771
Interest and dividend income	84,664	-	-	84,664
Realized and unrealized loss on investments	(118,664)	-	-	(118,664)
Miscellaneous income	10,870	-	-	10,870
Net assets released from restrictions	947,672	(947,672)	-	-
Total revenue, gains and other support	<u>2,284,576</u>	<u>(901,332)</u>	<u>-</u>	<u>1,383,244</u>
Expenses:				
Program services	2,005,238	-	-	2,005,238
Management and general	234,279	-	-	234,279
Fundraising	118,692	-	-	118,692
Total expenses	<u>2,358,209</u>	<u>-</u>	<u>-</u>	<u>2,358,209</u>
Decrease in net assets	(73,633)	(901,332)	-	(974,965)
Net assets at beginning of year	<u>1,526,119</u>	<u>947,672</u>	<u>197,895</u>	<u>2,671,686</u>
Net assets at end of year	<u>\$ 1,452,486</u>	<u>\$ 46,340</u>	<u>\$ 197,895</u>	<u>\$ 1,696,721</u>

*See accompanying notes*

**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2015**  
**(Unaudited - See Independent Accountant's Review Report)**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 396,316	\$ 26,421	\$ 17,614	\$ 440,351
Workers compensation insurance	117	8	5	130
Advertising and publicity	21,963	-	2,440	24,403
Animal maintenance	605,412	-	-	605,412
Automobile expenses	28,503	1,500	-	30,003
Bank fees	-	4,602	-	4,602
Contract services	107,864	58,835	29,418	196,117
Computer expenses	15,273	15,274	-	30,547
Credit card fees	-	22,184	-	22,184
Depreciation expense	-	28,411	-	28,411
Direct mail program	-	-	19,466	19,466
Donated services	-	11,200	-	11,200
Dues and subscriptions	-	-	780	780
Education expenses	5,785	-	-	5,785
Equipment rental and maintenance	574	-	-	574
Grounds and facility maintenance	52,003	-	-	52,003
In-kind donated facilities	51,300	2,700	-	54,000
Insurance	23,372	1,230	-	24,602
Investment fees	-	-	21,694	21,694
Merchandise fees	-	-	6,186	6,186
Miscellaneous expenses	-	1,494	-	1,494
Office expenses	5,485	686	686	6,857
On-site events	13,037	-	686	13,723
Printing fees	1,702	426	-	2,128
Professional fees	12,810	53,803	18,788	85,401
Rent	45,600	2,400	-	48,000
Rescues	4,050	-	-	4,050
Supplies	776	1,554	-	2,330
Telephone	8,863	985	-	9,848
Travel	8,359	-	929	9,288
Utilities	5,092	566	-	5,658
Wild horse conservation program	590,982	-	-	590,982
Totals	<u>\$ 2,005,238</u>	<u>\$ 234,279</u>	<u>\$ 118,692</u>	<u>\$ 2,358,209</u>

*See accompanying notes*

**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2015**  
**(Unaudited - See Independent Accountant's Review Report)**

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Cash Flows from Operating Activities:

Change in net assets	\$ (974,965)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	28,411
Realized and unrealized loss on investments, net	118,664
Decrease in:	
Prepaid expenses	2,999
Increase in:	
Accounts payable and accrued expenses	59,151
Net cash used by operating activities	<u>(765,740)</u>

Cash Flows from Investing Activities:

Purchase of investments	(79,112)
Sale of investments	910,694
Purchase of property and equipment	<u>(175,411)</u>
Net cash provided by investing activities	<u>656,171</u>

Cash Flows from Financing Activities:

Proceeds from issuance of notes payable	35,096
Payments on related-party notes payable	(3,000)
Payments on notes payable	<u>(3,721)</u>
Net cash provided by financing activities	<u>28,375</u>

Decrease in Cash and Cash Equivalents	(81,194)
Cash and Cash Equivalents at Beginning of Year	<u>291,795</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 210,601</u></u>

*See accompanying notes*

**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – See Independent Accountant’s Review Report)**

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**Note 1 - Nature of Activities**

Return To Freedom, Inc. 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.

Return to Freedom, Inc. is the parent Organization to the American Wild Horse Preservation Campaign (AWHPC). AWHPC was formed in 2004 by Return to Freedom to provide a unified voice and platform to advocate for America’s wild horses and burros.

**Note 2 - Summary of Significant Accounting Policies**

**A) Principles of Consolidation**

The consolidated financial statements include the accounts of Return to Freedom, Inc. and its subsidiary, AWHPC (the “Organization”). All significant inter-organization transactions and balances have been eliminated.

**B) 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 consolidated financial statements.



**RETURN TO FREEDOM, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – See Independent Accountant’s Review Report)**

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

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.

**C) 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 consolidated 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.

**D) 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 consolidated statement of cash flows.

**E) 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

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

**F) Donated Services**

The consolidated financial statements include \$11,200 recorded for donated consulting services provided to the Organization in unrestricted contributions and program expenses for the year ended December 31, 2015. 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 consolidated financial statements for these other donated services since no objective basis is available to measure the value of such services.

**G) 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.

**H) 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.

**I) Functional Allocation of Expenses**

The costs of providing the various programs and other supporting services have been summarized on a functional basis in the consolidated 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.

**J) Use of Estimates**

The preparation of the consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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**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.

**Note 4 - Investments**

Investments are recorded as follows as of December 31, 2015:

Unrestricted	\$ 1,500,514
Permanently restricted	<u>167,700</u>
	<u><u>\$ 1,668,214</u></u>

Permanently restricted investments consist of funds to be held in perpetuity, the income from which is expendable for operations and to purchase land. See Note 9.

Investments consist of the following as of December 31, 2015:

	<u>Cost</u>	<u>Market</u>	<u>Excess of Market Under Cost</u>
Cash and cash equivalents	\$ 196,531	\$ 196,531	\$ -
Corporate stocks and equity funds	1,088,413	1,025,793	(62,620)
Bonds and bond funds	<u>464,437</u>	<u>445,890</u>	<u>(18,547)</u>
	<u><u>\$ 1,749,381</u></u>	<u><u>\$ 1,668,214</u></u>	<u><u>\$ (81,167)</u></u>

**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 consolidated 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.

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**Note 5 – Fair Value Measurements (continued)**

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 year ended December 31, 2015, there were no changes to the Organization’s valuation techniques that had, or are expected to have, a material impact on its consolidated 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 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.

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**Note 5 – Fair Value Measurements (continued)**

*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, 2015.

	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	\$ 196,531	\$ 196,531	\$ -	\$ -
Mutual funds	482,590	482,590	-	-
Exchange-traded funds	543,203	543,203	-	-
Fixed income	445,890	445,890	-	-
Total assets, at fair value	<u>\$ 1,668,214</u>	<u>\$ 1,668,214</u>	<u>\$ -</u>	<u>\$ -</u>

**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 consolidated 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 consolidated 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 U.S. federal tax authorities for the years before 2012 and by state of California tax authorities for years before 2011.

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**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 endowments. 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.

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, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 703,465	\$ -	\$ -	\$ 703,465
Donor-restricted endowment funds	-	-	197,895	197,895
Total Endowment	<u>\$ 703,465</u>	<u>\$ -</u>	<u>\$ 197,895</u>	<u>\$ 901,360</u>

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**Note 7 - Endowment (continued)**

Changes in endowment net assets for the year ended December 31, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 753,287	\$ -	\$ 197,895	\$ 951,182
Investment return:				
Investment income	9,347	-	-	9,347
Net depreciation (realized and unrealized)	(59,169)	-	-	(59,169)
Endowment net assets, end of year	<u>\$ 703,465</u>	<u>\$ -</u>	<u>\$ 197,895</u>	<u>\$ 901,360</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 Foundation 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 distributions 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 8 - Assets Released from Donor Restrictions**

Net assets during 2015 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:

Care and maintenance of the existing horses in the herds	\$ 782,458
Purchase of water	63,232
Purchase of fencing	41,982
Advocacy	<u>60,000</u>
Total	<u><u>\$ 947,672</u></u>

**Note 9 - Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31, 2015 consists of \$197,985 of investments to be held in perpetuity, the earnings on which are unrestricted.

**Note 10 - Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2015 are available for the following purposes:

Care and maintenance of existing horses	\$ 8,380
Purchase of water	<u>37,960</u>
Total	<u><u>\$ 46,340</u></u>

**Note 11 - Accrued Liabilities**

Amounts included in accrued liabilities are as follows:

Accrued vacation	\$ 24,226
Accrued salaries	15,362
Accrued payroll taxes, interest and penalties	230,272
Accrued other	<u>13,379</u>
Total	<u><u>\$ 283,239</u></u>



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**Note 12 - Contingencies**

The contractor responsible for filing payroll tax returns and remitting payroll tax payments for the Organization failed to do so beginning in 2011 through a portion of 2013. During 2014, the Organization filed all the payroll tax returns that were not timely filed. Upper Management immediately stepped in to reorganize and negotiate with the Internal Revenue Service regarding late filing fees and penalties that were assessed. Management has accrued \$230,272 as of December 31, 2015, respectively, related to this matter. Subsequent to year-end, the Organization received a letter from the Internal Revenue Service confirming a partial abatement of interest and penalties. See Note 17 for further discussion.

**Note 13 - Notes Payable**

On March 25, 2015, the Organization financed equipment through Kubota Credit Corporation. This non-interest bearing note was issued for \$17,860 and is payable in 48 monthly installments of \$372 beginning April 25, 2015. This note includes a security interest in the property until payments in full are received. This note matures on March 25, 2019.

On December 30, 2015, the Organization financed equipment through Kubota Credit Corporation. This non-interest bearing note was issued for \$18,117 and is payable in 48 monthly installments of \$378 beginning February 3, 2016. This note includes a security interest in the property until payments in full are received. This note matures on December 30, 2019.

At December 31, 2015, notes payable consists of the following:

Notes payable to Kubota Credit Corporation	\$ 31,375
Less current portion of notes payable	<u>(8,617)</u>
Notes payable, net of current portion	<u><u>\$ 22,758</u></u>

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

2016	\$ 8,617
2017	8,994
2018	8,994
2019	<u>4,770</u>
	<u><u>\$ 31,375</u></u>

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**Note 14 - Retirement Plan**

The Organization has adopted a retirement plan under Internal Revenue Code Section 401(k). Substantially all employees are eligible to participate on the first anniversary of their employment commencement date. Company 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 Company’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. There were no Company contributions to the plan during the year ended December 31, 2015.

**Note 15 - Supplemental Disclosures of Cash Flow Information**

Non-cash:

The Organization entered into two financing agreements for the purchase of equipment totaling \$35,977 in 2015.

**Note 16 - Related Party Transactions**

Lease Obligation

The Organization leases its administrative office and ranch facilities under a two-year operating lease. The property is leased to the Organization by 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 year ended December 31, 2015, the Organization paid a total of \$48,000 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.

Management estimates the full value of the property at \$8,500 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 year ended December 31, 2015, the Organization reported \$54,000 in donated facilities.

**Note 17 - Subsequent Events**

Subsequent events have been evaluated through December 12, 2016, the date that the consolidated financial statements were available for issuance.

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**Note 17 - Subsequent Events (continued)**

In April 2016, the Organization received a letter from the Internal Revenue Service abating payroll tax interest and penalties in the amount of \$101,445.

Subsequent to December 31, 2015, but prior to the date that the consolidated financial statements were available for issuance, AWHPC received a favorable determination letter from the Internal Revenue Service to be considered a separate public charity under its own exemption from Federal income taxes under section 501(c) (3) of the Internal Revenue Code.