



Days End Farm Horse Rescue, Inc.

Financial Statements
and
Independent Auditor's Report

June 30, 2020 and 2019



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Independent Auditor's Report

To the Board of Directors
Days End Farm Horse Rescue, Inc.
Lisbon, Maryland

We have audited the accompanying financial statements of Days End Farm Horse Rescue, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the Organization as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Revenue Recognition

As discussed in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The adoption of this ASU did not result in a change to the accounting for any of the Organization revenue streams; as such, no cumulative effect adjustment was recorded. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2019, were audited by Halt, Buzas & Powell, Ltd., who merged with Sikich LLP as of January 1, 2020, and whose report dated November 4, 2019, expressed an unmodified opinion on those statements.

Sikich LLP

Alexandria, Virginia
November 17, 2020

Days End Farm Horse Rescue, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,857,097	\$ 1,312,955
Assets held on behalf of others	40,513	38,269
Accounts receivable, net	3,346	5,316
Contributions receivable	168,098	49,958
Prepaid expenses	75,255	72,222
Investments	580,916	542,280
Total current assets	2,725,225	2,021,000
Beneficial interest in trust	127,183	135,189
Property and equipment, net	1,562,093	1,529,348
Total assets	\$ 4,414,501	\$ 3,685,537
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 87,144	\$ 149,649
Pass through liability	40,513	38,269
Deferred revenue	49,190	36,962
Notes payable	39,727	38,228
Refundable advance	153,890	-
Total current liabilities	370,464	263,108
Notes payable, non-current	681,778	720,401
Total liabilities	1,052,242	983,509
Net assets:		
Without donor restrictions	2,925,121	2,353,336
With donor restrictions	437,138	348,692
Total net assets	3,362,259	2,702,028
Total liabilities and net assets	\$ 4,414,501	\$ 3,685,537

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Statement of Activities
For the Year Ended June 30, 2020

	Without donor restrictions	With donor restriction	Total
Revenues:			
Contribution revenue	\$ 1,598,739	\$ 237,803	\$ 1,836,542
In-kind contributions	165,370	-	165,370
WaterShed grant	112,772	-	112,772
Program service fees	103,253	-	103,253
Events	82,138	-	82,138
Sales of used tack and other items	20,214	-	20,214
Interest and dividend income	22,187	-	22,187
Other income	60	-	60
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>141,351</u>	<u>(141,351)</u>	<u>-</u>
Total revenues	<u>2,246,084</u>	<u>96,452</u>	<u>2,342,536</u>
Expenses:			
Program services:			
Rescue and rehabilitation	1,315,206	-	1,315,206
Education	74,997	-	74,997
Outreach	<u>74,985</u>	<u>-</u>	<u>74,985</u>
Total program services	<u>1,465,188</u>	<u>-</u>	<u>1,465,188</u>
Support services:			
Management and general	163,426	-	163,426
Fundraising	52,492	-	52,492
Direct benefit to donors	<u>16,375</u>	<u>-</u>	<u>16,375</u>
Total support services	<u>232,293</u>	<u>-</u>	<u>232,293</u>
Total expenses	<u>1,697,481</u>	<u>-</u>	<u>1,697,481</u>
Change in net assets from operating activities	<u>548,603</u>	<u>96,452</u>	<u>645,055</u>
Non-operating activities:			
Realized and unrealized gain on investments	18,003	-	18,003
Unrealized loss, beneficial interest in trust	-	(8,006)	(8,006)
Gain on sale of assets	<u>5,179</u>	<u>-</u>	<u>5,179</u>
Total non-operating activities	<u>23,182</u>	<u>(8,006)</u>	<u>15,176</u>
Change in net assets	571,785	88,446	660,231
Net assets, beginning of year	<u>2,353,336</u>	<u>348,692</u>	<u>2,702,028</u>
Net assets, end of year	<u>\$ 2,925,121</u>	<u>\$ 437,138</u>	<u>\$ 3,362,259</u>

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Statement of Activities
For the Year Ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restriction</u>	<u>Total</u>
Revenues:			
Contribution revenue	\$ 1,151,378	\$ 133,037	\$ 1,284,415
In-kind contributions	239,276	-	239,276
Events	209,840	-	209,840
Program service fees	125,483	-	125,483
WaterShed grant	70,818	-	70,818
Sales of used tack and other items	32,805	-	32,805
Interest and dividend income	15,865	-	15,865
Other income	1,150	-	1,150
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>117,221</u>	<u>(117,221)</u>	<u>-</u>
Total revenues	<u>1,963,836</u>	<u>15,816</u>	<u>1,979,652</u>
Expenses:			
Program services:			
Rescue and rehabilitation	1,247,787	-	1,247,787
Education	69,450	-	69,450
Outreach	<u>73,366</u>	<u>-</u>	<u>73,366</u>
Total program services	<u>1,390,603</u>	<u>-</u>	<u>1,390,603</u>
Support services:			
Management and general	178,063	-	178,063
Fundraising	93,021	-	93,021
Direct benefit to donors	<u>26,096</u>	<u>-</u>	<u>26,096</u>
Total support services	<u>297,180</u>	<u>-</u>	<u>297,180</u>
Total expenses	<u>1,687,783</u>	<u>-</u>	<u>1,687,783</u>
Change in net assets from operating activities	<u>276,053</u>	<u>15,816</u>	<u>291,869</u>
Non-operating activities:			
Realized and unrealized gain on investments	19,703	-	19,703
Unrealized gain, beneficial interest in trust	-	930	930
Gain on sale of assets	<u>2,507</u>	<u>-</u>	<u>2,507</u>
Total non-operating activities	<u>22,210</u>	<u>930</u>	<u>23,140</u>
Change in net assets	298,263	16,746	315,009
Net assets, beginning of year	<u>2,055,073</u>	<u>331,946</u>	<u>2,387,019</u>
Net assets, end of year	<u>\$ 2,353,336</u>	<u>\$ 348,692</u>	<u>\$ 2,702,028</u>

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2020

	<u>Rescue and rehabilitation</u>	<u>Education</u>	<u>Outreach</u>	<u>Total program</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Direct benefit to donors</u>	<u>Total support</u>	<u>Total expenses</u>
Salaries and payroll expenses	\$ 563,558	\$ 44,443	\$ 46,545	\$ 654,546	\$ 79,827	\$ 20,197	\$ -	\$ 100,024	\$ 754,570
Professional fees	143,302	3,381	1,028	147,711	35,433	456	-	35,889	183,600
Contributed supplies	163,016	-	-	163,016	-	-	-	-	163,016
Supplies	157,719	711	745	159,175	1,409	331	-	1,740	160,915
Occupancy	118,197	12,631	4,295	135,123	12,290	664	-	12,954	148,077
Depreciation and amortization	51,532	-	-	51,532	3,685	-	-	3,685	55,217
Equipment rental and maintenance	38,988	530	555	40,073	1,049	246	-	1,295	41,368
Event space, meals and supplies	21,359	-	-	21,359	359	3,228	16,375	19,962	41,321
Educational supplies, stipends, meals and travel	8,610	8,610	14,317	31,537	-	-	-	-	31,537
Licenses and subscriptions	20,872	1,646	1,724	24,242	3,259	766	-	4,025	28,267
Printing and postage	11,102	1,886	-	12,988	-	12,989	-	12,989	25,977
Bank and internet processing fees	-	-	-	-	22,704	-	-	22,704	22,704
Training and employee relations	12,351	974	1,020	14,345	1,929	453	-	2,382	16,727
Advertising	2,222	117	-	2,339	1,381	12,429	-	13,810	16,149
Other operating expenses	653	52	4,752	5,457	101	24	-	125	5,582
Contributed services	1,306	-	-	1,306	-	-	-	-	1,306
Office expense	419	16	4	439	-	709	-	709	1,148
Total expenses	<u>\$ 1,315,206</u>	<u>\$ 74,997</u>	<u>\$ 74,985</u>	<u>\$ 1,465,188</u>	<u>\$ 163,426</u>	<u>\$ 52,492</u>	<u>\$ 16,375</u>	<u>\$ 232,293</u>	<u>\$ 1,697,481</u>

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Rescue and rehabilitation	Education	Outreach	Total program	Management and general	Fundraising	Direct benefit to donors	Total support	Total expenses
Salaries and payroll expenses	\$ 522,240	\$ 41,184	\$43,132	\$ 606,556	\$ 94,741	\$ 19,617	\$ -	\$ 114,358	\$ 720,914
Professional fees	121,766	828	658	123,252	29,791	322	-	30,113	153,365
Contributed supplies	204,338	-	-	204,338	-	-	-	-	204,338
Supplies	138,493	664	695	139,852	1,719	341	-	2,060	141,912
Occupancy	123,274	13,204	4,435	140,913	13,450	730	-	14,180	155,093
Depreciation and amortization	50,361	-	-	50,361	5,022	-	-	5,022	55,383
Equipment rental and maintenance	25,324	487	510	26,321	1,262	250	-	1,512	27,833
Event space, meals and supplies	11,522	-	-	11,522	4,184	37,659	26,096	67,939	79,461
Educational supplies, stipends, meals and travel	8,342	8,342	17,456	34,140	-	-	-	-	34,140
Licenses and subscriptions	14,692	1,159	1,213	17,064	3,001	595	-	3,596	20,660
Printing and postage	14,495	2,843	-	17,338	-	17,337	-	17,337	34,675
Bank and internet processing fees	-	-	-	-	21,043	-	-	21,043	21,043
Training and employee relations	5,896	465	487	6,848	1,205	239	-	1,444	8,292
Advertising	2,910	153	-	3,063	1,611	14,495	-	16,106	19,169
Other operating expenses	1,144	90	4,772	6,006	1,034	46	-	1,080	7,086
Contributed services	1,248	-	-	1,248	-	-	-	-	1,248
Office expense	<u>1,742</u>	<u>31</u>	<u>8</u>	<u>1,781</u>	<u>-</u>	<u>1,390</u>	<u>-</u>	<u>1,390</u>	<u>3,171</u>
Total expenses	<u>\$ 1,247,787</u>	<u>\$ 69,450</u>	<u>\$73,366</u>	<u>\$ 1,390,603</u>	<u>\$ 178,063</u>	<u>\$ 93,021</u>	<u>\$ 26,096</u>	<u>\$ 297,180</u>	<u>\$ 1,687,783</u>

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ <u>660,231</u>	\$ <u>315,009</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	55,217	55,383
Unrealized loss (gain) on beneficial interest in trust	8,006	(930)
Unrealized gain on investments	(14,678)	(19,703)
Realized gain on investments	(3,324)	-
Donated stock	(10,464)	(93,161)
Donated property and equipment	-	(33,690)
Gain on sale of assets	(5,179)	(2,507)
Bad debt expense	-	700
Decrease (increase) in assets:		
Assets held on behalf of others	(2,244)	119,761
Accounts receivable, net	1,970	(3,406)
Contributions receivable	(118,140)	26,043
Prepaid expenses	(3,033)	(46,721)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(62,505)	60,208
Pass through liability	2,244	(119,761)
Deferred revenue	12,228	(70,818)
Refundable advance	<u>153,890</u>	<u>-</u>
Total adjustments	<u>13,988</u>	<u>(128,602)</u>
Net cash provided by operating activities	<u>674,219</u>	<u>186,407</u>
Cash flows from investing activities:		
Purchases of property and equipment	(110,983)	(185,130)
Proceeds from sales of property and equipment	28,200	2,507
Purchases of investments	<u>(10,170)</u>	<u>(5,934)</u>
Net cash used in investing activities	<u>(92,953)</u>	<u>(188,557)</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(37,124)</u>	<u>(36,053)</u>
Net cash provided by (used in) financing activities	<u>(37,124)</u>	<u>(36,053)</u>
Net increase (decrease) in cash and cash equivalents	544,142	(38,203)
Cash and cash equivalents, beginning of year	<u>1,312,955</u>	<u>1,351,158</u>
Cash and cash equivalents, end of year	<u>\$ <u>1,857,097</u></u>	<u>\$ <u>1,312,955</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ <u>39,113</u></u>	<u>\$ <u>40,849</u></u>

See accompanying notes to the financial statements.

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
June 30, 2020 and 2019

1. Organization

Days End Farm Horse Rescue, Inc. (the Organization) is a nonprofit, volunteer based, animal welfare organization established in 1989 to ensure quality care and treatment for horses through rehabilitation, humane education and community outreach. The Organization offers adoption to qualified, pre-screened homes and performs annual follow-up visits to guarantee proper treatment, safety and well being. The volunteer program offers training on horse care, rehabilitation of abused and neglected horses, stable management and teaches compassion to adults and young adults (twelve years and older). Through the humane educational programs, the Organization staff visits schools, civic organizations, and area 4-H clubs to provide information on: the proper care of horses, case studies of abused and neglected horses, the cycle of violence and possible solutions to the problem so that individuals learn how to help. The Organization provides support service to animal control and humane societies as purveyors of shelter, transportation and care of destitute horses involved in cruelty investigations or as strays. The Organization offers continuing education such as: hands-on cruelty investigation training for Animal Control officers and humane societies, and classes for Fire and Rescue departments and horse owners in large animal rescue techniques. The Organization also provides emergency rescue services to horses at the request of their veterinarians or other emergency personnel and provides disaster services in response to manmade or natural disasters.

During 2014, the Organization exercised an option in its operating lease to purchase 58.3 acres of land in Woodbine, Maryland. In November 2014, the Organization completed the transaction to purchase this land and related improvements for \$1.1 million. See Notes 7 and 10 for further details.

2. Summary of Significant Accounting Policies

a. Basis of presentation

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for nonprofit organizations. Under those principles, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* represent resources that are not subject to donor imposed restrictions and are available for operations at management's discretion.

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
June 30, 2020 and 2019

- *Net Assets With Donor Restrictions* represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statements of activities.

b. Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

c. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

d. Fair value measurements

U.S. GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. U.S. GAAP requires the Organization to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Significant unobservable inputs

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
June 30, 2020 and 2019

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

Valuation Techniques

Following is a description of the valuation technique used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the technique used at June 30, 2020 and 2019.

- Mutual funds: valued at the daily closing price as reported by the fund.
- Equities: valued at the daily closing price as reported by the fund.
- Beneficial interest in Trust: Valued using one third the fair value of the assets held in the trust reported by the trustee as of June 30, 2020. The Organization considers the measurement of its beneficial interest in the perpetual charitable trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on one third the unadjusted fair value of trust assets reported by the trustee, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

e. Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on income derived from activities related to its exempt purpose. The Organization is not classified as a private foundation.

f. Cash and cash equivalents

For financial statement purposes, the Organization considers highly liquid investments with an original maturity of three months or less as cash equivalents.

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
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g. Accounts receivable, net

Accounts receivable are due in less than one year and stated at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2020 and 2019, the allowance for doubtful accounts totaled \$11,300 for each year.

h. Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. All contributions receivable are expected to be collected in less than one year and are reported at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2020 and 2019, all contributions receivable were considered collectible, therefore no allowance for doubtful accounts had been recognized.

i. Investments

Investments are reported at fair value and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by donor restrictions or law. Investment return is reported net external and direct internal investment expenses. The Organization invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could materially affect investment balances and amounts reported in the accompanying financial statements.

j. Property and equipment, net

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation and amortization. Donated property and equipment is stated at fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Days End Farm Horse Rescue, Inc.

Notes to the Financial Statements

June 30, 2020 and 2019

Buildings and improvements	39 years
Furniture and fixtures	10 - 25 years
Farm equipment	3 - 15 years
Vehicles	3 - 5 years
Office and computer equipment	3 - 5 years

The Organization's policy is to capitalize major additions and improvements over \$5,000 and estimated useful lives greater than three years. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Included in property and equipment are expenses incurred in the process of acquiring the land and structures adjacent to the existing property. The Organization has signed an agreement for the purchase and is in the process of completing the due diligence. The purchase is expected to be completed within the next fiscal year. These expenses are not currently being depreciated, as they are not yet in service.

k. Measure of operations

The accompanying statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing programmatic services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

l. Revenue recognition

Contributions: The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Organization reports gifts of cash and other assets as donor restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to the Organization's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
June 30, 2020 and 2019

WaterShed Grant: The WaterShed grant is recognized as revenue when the qualifying expenses are incurred. Amounts received in advance are recorded as deferred revenue in the accompanying statements of financial position.

Program service fees: Program revenue consists primarily of fees generated from the Organization's legacy and adoption programs. Fees are recognized as revenue in the period in which services are provided.

Annual fundraising events: Annual fundraising events are recognized in the period the event takes place.

Sales of used tack and other items: Sales of used tack and other items are recognized in the period the items are sold.

In-kind contributions: Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited.

Many individuals volunteer their time and perform a variety of tasks that assists the Organization. The value of these contributed services is not recorded as in-kind contributions since the criteria for recognition was not met under the standards.

m. Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs, such as salaries and payroll expenses, equipment rental and maintenance, licenses, and training and employee relations have been allocated among programs and supporting services based on level of effort. Occupancy and depreciation and amortization have been allocated among programs and supporting services based on use of the assets.

Days End Farm Horse Rescue, Inc.
Notes to the Financial Statements
June 30, 2020 and 2019

n. Adoption of new accounting standard

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). This standard is intended to address questions stemming from ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), regarding its implications on grants and contracts of not-for-profit organizations. The Organization adopted the requirements of the new guidance as of July 1, 2019.

o. New pronouncements

FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. On June 3, 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) *Effective Dates for Certain Entities*, to defer the effective date of FASB ASC 606 to fiscal years beginning after December 15, 2019 for nonprofit entities that have not yet issued financial statements due to the COVID-19 pandemic. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), to increase transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosure about leasing arrangements. ASU No. 2016-02, as amended by 2020-05, is effective for nonprofit entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new lease standard at the beginning of the earliest period presented in the financial statements.

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In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The Organization is currently assessing the impacts of this new standard, including the transition methods.

The Organization plans to adopt the ASUs at the respective implementation dates.

3. Liquidity and Availability

The following represents the Organization's current financial assets at June 30:

Current financial assets at year end:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,857,097	\$ 1,312,955
Accounts receivable	3,346	5,316
Contributions receivable	168,098	49,958
Investments	<u>580,916</u>	<u>542,280</u>
Total current financial assets	<u>2,609,457</u>	<u>1,910,509</u>
Less amounts not available within one year:		
Net assets with donor restrictions	<u>(309,955)</u>	<u>(163,545)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,299,502</u>	<u>\$ 1,746,964</u>

The Organization's goal is generally to maintain financial assets to meet six months of operating expenses (approximately \$700,000). As part of its liquidity plan, excess cash is invested in short-term investment.

4. Concentrations of Credit Risk

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2020 and 2019, the Organization had bank deposits in excess of FDIC limits of \$1,615,478 and \$1,104,843, respectively. In addition, at June 30, 2020 and 2019, the cash portion of investments, \$210,895 and \$205,765 respectively, was not covered by the FDIC. The Organization has not experienced any loss related to this credit risk.

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5. Investments and Fair Value Measurements

Assets measured at fair value on a recurring basis at June 30, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income mutual funds	\$ 370,021	\$ -	\$ -	\$ 370,021
Beneficial interest in Trust	<u>-</u>	<u>-</u>	<u>127,183</u>	<u>127,183</u>
Total investments measured at fair value	<u>\$ 370,021</u>	<u>\$ -</u>	<u>\$ 127,183</u>	497,204
Less: Beneficial Interest in Trust				(127,183)
Cash, measured at amortized cost				<u>210,895</u>
Total investments				<u>\$ 580,916</u>

Assets measured at fair value on a recurring basis at June 30, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income mutual funds	\$ 238,552	\$ -	\$ -	\$ 238,552
Equities-common stock	97,963	-	-	97,963
Beneficial interest in Trust	<u>-</u>	<u>-</u>	<u>135,189</u>	<u>135,189</u>
Total investments measured at fair value	<u>\$ 336,515</u>	<u>\$ -</u>	<u>\$ 135,189</u>	471,704
Less: Beneficial Interest in Trust				(135,189)
Cash, measured at amortized cost				<u>205,765</u>
Total investments				<u>\$ 542,280</u>

6. Beneficial Interest in Trust

The Organization has a beneficial interest in a perpetual trust along with two other organizations that distributes one-third of 5% of its fair value to the Organization on an annual basis. The trust invests in publicly traded investments with readily determinable fair values based on quoted prices in active markets. The Organization carries its interest in the trust at the fair value of the underlying investments. The fair value of the trust is recorded as net assets with donor restriction and the changes in its fair value are classified as changes in net assets with donor restrictions.

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The activity for assets which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs), is as follows:

	2020	2019
Balance, beginning of year	\$ 135,189	\$ 134,259
Change in fair value	(8,006)	930
Balance, end of year	\$ 127,183	\$ 135,189

The change in value of the beneficial interest in trust is included as unrealized gain or loss separate from other investment income in the accompanying statements of activities.

7. Property and Equipment, Net

The following is a summary of property and equipment held at June 30:

	2020	2019
Land	\$ 688,050	\$ 688,050
Buildings and improvements	803,890	737,652
Furniture and fixtures	46,948	46,948
Farm equipment	153,315	167,798
Vehicles	134,358	164,978
Office and computer equipment	16,068	17,499
Property and equipment	1,842,629	1,822,925
Accumulated depreciation and amortization	(280,536)	(293,577)
Total property and equipment, net	\$ 1,562,093	\$ 1,529,348

8. Pass Through Liability

The Organization acts as a fiscal sponsor for a state council to provide safe options for horses in transition. The Organization receives contributions on behalf of the state council and pays out expenses on their behalf. Such contributions and expenses are reported as a liability in the accompanying statements of financial position.

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9. Refundable Advance

The Paycheck Protection Program is a low-interest Small Business Administration (SBA) loan and generally covers eight weeks of payroll costs and may be forgiven entirely if the borrower maintains certain staffing levels and spends a certain amount of funds on salaries and other qualifying expenditures during the qualified period. The Organization was approved for a loan on May 8, 2020, under this program in the amount of \$153,890 with an interest rate of 1% and a maturity date of May 8, 2022. As of the report date, loan forgiveness requirements had not been met, however management anticipates meeting the requirements of forgiveness within the eligible timeframe and under the requirements of the program. The balance of the loan is included on the statement of financial position as of June 30, 2020 as a refundable advance until forgiveness is approved.

10. Notes Payable

Notes payable and related current maturities consist of the following at June 30:

	2020	2019
Promissory note dated November 2014, in the amount of \$880,000, with an annual interest rate of 5.24 percent. On May 2020 the Organization refinanced principal of \$728,359 for an additional 10 years, with an annual interest rate of 3.84 percent. The note calls for monthly principal and interest payments of \$5,477 for one-hundred-and-twenty months with a balloon payment of the remaining principal and accrued interest on May 2030. The Organization is in compliance with all loan covenants for the years ended June 30, 2020 and 2019. The note is secured by property.	\$ 719,768	\$ 749,942
Non-interest bearing promissory note dated October 2015, in the amount of \$34,750. The note calls for monthly principal payments of \$579 for sixty months. The note is secured by farm equipment.	1,737	8,687
Total notes payable	721,505	758,629
Current portion, notes payable	(39,727)	(38,228)
Non-current portion, notes payable	\$ 681,778	\$ 720,401

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Aggregate future maturities of notes payable are as follows for the years ending June 30:

2021		\$	39,727
2022			39,494
2023			41,059
2024			42,686
2025			44,376
2026 and thereafter			<u>514,163</u>
Total			<u>\$ 721,505</u>

11. Line of Credit

During the year ended June 30, 2020, the Organization obtained a line of credit with a financial institution with a credit limit of \$300,000 and an interest rate of 3.25%. The line of credit is secured by all personal property owned by the Organization. There was no outstanding balance on the line at June 30, 2020.

12. Net Assets With Donor Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2020 and 2019 for the following purposes:

	<u>2020</u>		<u>2019</u>
Future buildings	\$ 35,298	\$	-
Marketing	24,000		2,000
Donor designated projects	11,968		1,927
Farm equipment	5,014		1,380
Horse training	3,674		-
Classes	2,429		1,400
Adoption	2,000		-
ACO go kits	265		-
Robin's Nest	-		16,886
Horse medical expenses	1,595		12,627
Horse show sponsorship	-		5,000
Staff appreciation	5,150		-
Time restricted	<u>49,958</u>		<u>76,001</u>
Total net assets released from restrictions	<u>\$ 141,351</u>	\$	<u>117,221</u>

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At June 30, 2020 and 2019, net assets with donor restrictions were available for the following purposes:

	<u>2020</u>	<u>2019</u>
Future buildings	\$ 103,807	\$ 104,105
Horse training	10,400	6,349
Electric sling brace	10,000	10,000
Community support	10,000	-
Robin's Nest	3,114	3,114
Farm equipment	-	4,830
Donor designated projects	3,943	6,860
Marketing	422	24,422
Classes	171	2,600
Adoption	-	1,000
ACO go kits	-	265
Time restricted	168,098	49,958
Beneficial trust	<u>127,183</u>	<u>135,189</u>
Total net assets with donor restrictions	<u>\$ 437,138</u>	<u>\$ 348,692</u>

13. Donated Goods and Services

The Organization received in-kind contributions primarily in the form of donated supplies and equipment. The value of contributed supplies was \$163,016 and \$238,028 for the years ended June 30, 2020 and 2019, respectively, of which \$1,048 and \$33,690 was capitalized as property and equipment for the years ended June 30, 2020 and 2019, respectively. The Organization also received donated veterinary and farrier services valued at \$2,354 and \$1,248 for the years ended June 30, 2020 and 2019, respectively. All in-kind goods and services are included in program services in the accompanying statements of activities.

Many other individuals volunteer their time and perform a variety of tasks that assist the Organization. The value of these contributed services have not been recorded in the financial statements since they did not meet the criteria for recognition. Unaudited volunteer hours for farm work and data entry totaled 31,654 and 44,732 for the years ended June 30, 2020 and 2019, respectively.

14. Operating Lease

On August 1, 2017, the Organization entered into a five year lease agreement for use of other farm land to provide for additional shelter capacity. The lease calls for a monthly payment of \$2,500 and expires in August 2022. Rent expense was \$30,000, for the years ended June 30, 2020 and 2019.

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Aggregate future minimum lease payments are as follows for the years ending June 30:

2021	\$ 30,000
2022	30,000
2023	<u>5,000</u>
Total	<u>\$ 65,000</u>

15. Retirement Plan

On January 1, 2012, the Organization established a SIMPLE Individual Retirement Account plan for employees receiving at least \$5,000 in compensation. The Organization matches employees' contributions up to 3% of an employee's salary. Retirement plan expense was \$9,219 and \$10,067 for the years ended June 30, 2020 and 2019, respectively.

16. Advertising Expense

The Organization expenses the cost of advertising as incurred. Advertising expense was \$16,149 and \$19,168 for the years ended June 30, 2020 and 2019, respectively.

17. Related Party Transactions

The Organization entered into a lease with a related organization for use of other farm land to provide for additional shelter capacity. The lease is based on annual analyses of current market rates. See Note 14 for lease details.

18. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 17, 2020, which is the date the financial statements were available to be issued. Except as noted below, there were no subsequent events that require recognition of, or disclosure in, these financial statements.

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Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, Organization activities and funding sources could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.