



Independent Auditors' Report and
Financial Statements for

J. F. Shea Therapeutic Riding Center, Inc.

December 31, 2019 and 2018

J. F. Shea Therapeutic Riding Center, Inc.

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Independent Auditors' Report

To the Board of Directors
J. F. Shea Therapeutic Riding Center, Inc.
San Juan Capistrano, California

We have audited the accompanying financial statements of J. F. Shea Therapeutic Riding Center, Inc. (a California nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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 J. F. Shea Therapeutic Riding Center, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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April 9, 2020

Redwitz, Inc.

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J.F. Shea Therapeutic Riding Center, Inc.

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,520,972	\$ 2,765,776
Accounts receivable, net	45,276	32,791
Pledges receivable, net	474,195	133,980
Prepaid expenses	115,626	122,389
Other assets	<u>6,200</u>	<u>6,350</u>
Total current assets	<u>3,162,269</u>	<u>3,061,286</u>
Property and equipment, net of accumulated depreciation	<u>10,163,190</u>	<u>10,486,491</u>
Other assets		
Cash held for long term purposes	438,235	364,684
Pledges receivable, net of current portion	2,105,371	142,860
Deposits	103,225	102,666
Investments - held for long term purposes	36,000	36,000
Investments - endowments	<u>1,217,393</u>	<u>548,401</u>
Total other assets	<u>3,900,224</u>	<u>1,194,611</u>
Total assets	<u>\$ 17,225,683</u>	<u>\$ 14,742,388</u>

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 24,017	\$ 54,366
Accrued liabilities	117,360	125,431
Deferred revenue	51,406	39,269
Funds held for others	35,026	38,356
Capital lease	-	4,395
	<u>227,809</u>	<u>261,817</u>
Long term liabilities		
Capital lease, net of current portion	-	4,327
	<u>-</u>	<u>4,327</u>
	<u>227,809</u>	<u>266,144</u>
Net assets		
Without donor restrictions		
Undesignated	8,680,179	9,177,666
Designated by the Board for facilities maintenance	302,183	291,819
Designated by the Board for investment held as quasi-endowments	515,472	369,383
	<u>9,497,834</u>	<u>9,838,868</u>
With donor restrictions		
Purpose restricted	617,307	532,486
Perpetual in nature	6,882,733	4,104,890
	<u>7,500,040</u>	<u>4,637,376</u>
	<u>16,997,874</u>	<u>14,476,244</u>
	<u>\$ 17,225,683</u>	<u>\$ 14,742,388</u>

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Activities

For the Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	2019 Total
Revenue and support			
Gross riding and therapy fees	\$ 864,795	\$ -	\$ 864,795
Less: financial aid	(191,393)	-	(191,393)
Net riding and therapy fees	673,402	-	673,402
Boarding fees	14,459	-	14,459
Contributions - program	2,808,408	745,420	3,553,828
Contributions - capital	8,014	75,058	83,072
Contributions - endowment	-	2,704,450	2,704,450
In-kind contributions (Note 1)	101,934	-	101,934
Special events (Note 7)	421,925	-	421,925
Facility rental	43,790	-	43,790
Interest and dividends, net of expenses	52,786	8,511	61,297
Gain (loss) on investments	78,665	64,883	143,548
Gain (loss) on sale/disposal of property	(17,729)	-	(17,729)
Net assets released from restrictions			
Satisfaction of program restrictions	724,131	(724,131)	-
Satisfaction of capital restrictions	11,527	(11,527)	-
Total revenue and support	4,921,312	2,862,664	7,783,976
Expenses			
Program services			
Riding and therapy	3,262,871	-	3,262,871
Direct benefits to donors (Note 7)	465,686	-	465,686
Supporting services			
Management and general	305,246	-	305,246
Endowment campaign	296,404	-	296,404
Fundraising	932,139	-	932,139
Total expenses	5,262,346	-	5,262,346
Increase (decrease) in net assets	(341,034)	2,862,664	2,521,630
Net assets at beginning of year	9,838,868	4,637,376	14,476,244
Net assets at end of year	\$ 9,497,834	\$ 7,500,040	\$ 16,997,874

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Activities

For the Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	2018 Total
Revenue and support			
Gross riding and therapy fees	\$ 876,514	\$ -	\$ 876,514
Less: financial aid	(211,554)	-	(211,554)
Net riding and therapy fees	664,960	-	664,960
Boarding fees	32,170	-	32,170
Contributions - program	2,443,182	706,906	3,150,088
Contributions - capital	24,606	2,314	26,920
Contributions - endowment	-	353,100	353,100
In-kind contributions (Note 1)	70,002	-	70,002
Special events (Note 7)	366,828	-	366,828
Facility rental	46,494	-	46,494
Interest and dividends, net of expenses	43,957	1,912	45,869
Gain (loss) on investments	(32,610)	(11,286)	(43,896)
Gain (loss) on sale/disposal of property, net of sale costs	(21,052)	-	(21,052)
Net assets released from restrictions			
Satisfaction of program restrictions	728,612	(728,612)	-
Satisfaction of capital restrictions	100,500	(100,500)	-
Total revenue and support	4,467,649	223,834	4,691,483
Expenses			
Program services			
Riding and therapy	2,949,016	-	2,949,016
Direct benefits to donors (Note 7)	417,886	-	417,886
Supporting services			
Management and general	285,160	-	285,160
Endowment campaign	216,068	-	216,068
Fundraising	728,938	-	728,938
Total expenses	4,597,068	-	4,597,068
Increase (decrease) in net assets	(129,419)	223,834	94,415
Net assets at beginning of year	9,968,287	4,413,542	14,381,829
Net assets at end of year	\$ 9,838,868	\$ 4,637,376	\$ 14,476,244

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Functional Expenses

For the Year Ended December 31, 2019

	Program services		Supporting services			2019 Total expenses
	Riding and therapy	Management and general	Endowment campaign	Fundraising expenses		
Salaries	\$ 1,697,329	\$ 193,676	\$ 64,690	\$ 480,878	\$ 2,436,573	
Employee benefits	229,872	19,369	9,128	50,982	309,351	
Payroll taxes	139,266	15,091	4,235	36,656	195,248	
Total personnel expenses	2,066,467	228,136	78,053	568,516	2,941,172	
Continuing education	28,690	240	-	3,669	32,599	
Credit card and bank charges	15,745	6,325	-	48,315	70,385	
Depreciation	342,092	21,197	-	56,854	420,143	
Equipment rental	354	236	-	589	1,179	
Event auction costs	-	-	-	25,872	25,872	
Event décor and supplies	-	-	-	35,265	35,265	
Feed and horse care supplies	117,834	-	-	-	117,834	
Insurance	38,461	350	-	-	38,811	
Interest expense	336	168	-	167	671	
Marketing and public relations	30,176	2,602	6,000	71,158	109,936	
Miscellaneous	29,963	1,385	-	29,993	61,341	
Other campaign direct expenses	1,109	-	4,522	44,289	49,920	
Professional services	240,280	27,843	207,750	14,185	490,058	
Program and office supplies	65,040	5,385	79	21,825	92,329	
Repairs and maintenance	125,904	6,813	-	6,126	138,843	
Therapy support services	100,344	-	-	-	100,344	
Uncollected fees	1,138	-	-	-	1,138	
Utilities and telephone	58,938	4,566	-	5,316	68,820	
Total functional expenses	\$ 3,262,871	\$ 305,246	\$ 296,404	\$ 932,139	\$ 4,796,660	

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Functional Expenses

For the Year Ended December 31, 2018

	Program services		Supporting services			2018 Total expenses
	Riding and therapy	Management and general	Endowment campaign	Fundraising expenses		
Salaries	\$ 1,508,776	\$ 173,795	\$ 46,403	\$ 357,407	\$ 2,086,381	
Employee benefits	222,701	16,670	5,586	48,950	293,907	
Payroll taxes	134,818	14,386	3,647	29,217	182,068	
Total personnel expenses	1,866,295	204,851	55,636	435,574	2,562,356	
Continuing education	15,031	138	-	957	16,126	
Credit card and bank charges	14,768	6,578	-	39,552	60,898	
Depreciation	348,781	24,697	-	24,370	397,848	
Equipment rental	471	314	-	786	1,571	
Event auction costs	-	-	-	23,959	23,959	
Event décor and supplies	-	-	-	37,068	37,068	
Feed and horse care supplies	125,797	-	-	-	125,797	
Insurance	38,041	350	-	-	38,391	
Interest expense	411	206	-	205	822	
Marketing and public relations	34,766	2,618	-	64,097	101,481	
Miscellaneous	10,814	2,343	-	29,289	42,446	
Other campaign direct expenses	2,201	-	-	39,630	41,831	
Professional services	169,591	25,872	153,168	14,625	363,256	
Program and office supplies	51,158	6,173	7,264	11,386	75,981	
Repairs and maintenance	129,109	6,289	-	2,404	137,802	
Therapy support services	75,119	-	-	-	75,119	
Uncollected fees	2,672	-	-	-	2,672	
Utilities and telephone	63,991	4,731	-	5,036	73,758	
Total functional expenses	\$ 2,949,016	\$ 285,160	\$ 216,068	\$ 728,938	\$ 4,179,182	

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,521,630	\$ 94,415
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(75,000)	(37,319)
Contributions of property and equipment	(32,100)	(24,774)
Loss on sale/disposal of property	17,729	20,552
(Gain) loss on investments	(143,548)	43,896
Change in reserve for uncollectible accounts receivable	(4,119)	2,976
Change in pledge discounts	928	(3,155)
Change in funds held for others	(3,330)	(2,790)
Depreciation	420,143	397,848
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(8,366)	(4,488)
Pledges receivable	(2,303,654)	(146,590)
Prepaid expenses	6,763	(25,028)
Deposits	(559)	(18,781)
Other assets	150	1,975
Increase (decrease) in:		
Accounts payable	(30,349)	28,602
Accrued liabilities	(8,071)	19,448
Deferred revenue	12,137	(12,291)
Net cash provided by operating activities	<u>370,384</u>	<u>334,496</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash held for long-term purposes	(74,988)	(69,100)
Purchases of property and equipment	(82,473)	(220,635)
Proceeds from sales of property and equipment	2	3
Investment purchases	(544,412)	(237,697)
Investment income, net of fees	<u>18,968</u>	<u>9,882</u>
Net cash used by investing activities	<u>(682,903)</u>	<u>(517,547)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Use of funds held for long-term purposes	76,437	153,989
Payments on capital lease	<u>(8,722)</u>	<u>(4,078)</u>
Net cash provided by financing activities	<u>67,715</u>	<u>149,911</u>
Net decrease in cash	(244,804)	(33,140)
Cash and cash equivalents at beginning of year	<u>2,765,776</u>	<u>2,798,916</u>
Cash and cash equivalents at end of year	<u>\$ 2,520,972</u>	<u>\$ 2,765,776</u>
SUPPLEMENTARY INFORMATION:		
Cash paid for interest	<u>\$ 727</u>	<u>\$ 765</u>

See accompanying notes to financial statements

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies

J.F. Shea Therapeutic Riding Center, Inc. ("The Shea Center" or "Organization"), formerly known as the Fran Joswick Therapeutic Riding Center, was founded in 1979 and is a California nonprofit corporation.

The Shea Center is dedicated to improving the lives of people with disabilities through therapeutic horse-related programs. Services offered include hippotherapy, which is the treatment modality where a physical, occupational, or speech therapist treats a client in an equestrian setting to achieve functional, measurable gains. Therapeutic riding – or adaptive riding – services are also provided and are taught by highly trained equine professionals. All of the therapeutic equestrian professionals at The Shea Center receive extensive education and certification through the Professional Association of Therapeutic Horsemanship International (PATH Int'l) as well as through their professional degree programs.

The Shea Center's clients are diverse in age range and ability level. More than 70 disabilities were treated at The Shea Center in 2019, including 1) autism, 2) genetic disorders, 3) cerebral palsy, 4) intellectual disability, 5) developmental delay, 6) traumatic brain injury, 7) seizure disorder, and a number of other physical and cognitive challenges. Clients are as young as two years old and the oldest client served is 99. On average, clients under the age of 18 comprise over 75 percent of the individuals seen by Shea Center professionals. The average treatment period for a Shea Center client is 7-9 years. In 2019, more than 15,400 direct client service hours were delivered to clients, an increase from about 14,800 hours in 2018. The Shea Center also has a growing military presence in 2019 with more than 420 unique participants attending programs designed to aid veterans, active duty personnel, and their family members. Military programs at The Shea Center have grown from 309 unique participants in 2018.

The Shea Center has internship affiliations with eight university physical, occupational, and speech therapy programs. Chapman University, Cal State Long Beach, Azusa Pacific, and USC are among the schools that have placed their doctoral therapy student interns at The Shea Center. UCI's School of Social Ecology is also an active intern partner for students.

Therapeutic riding and other equine-related professionals and administrators have been trained at The Shea Center for many years. Shea-trained professionals work in nearly every state in the United States and in 15 different countries. More than 100 therapeutic equestrian facility executive directors have received training from The Shea Center personnel to improve their business acumen in areas that include management, development, and sustainability. Fees received in 2019 and 2018 for these training activities are included in revenue in the accompanying financial statements.

The Shea Center employs 44 full and part-time staff to serve over 1,500 clients. Accordingly, volunteerism is a vital component to support its programs. With approximately 30,000 volunteer hours given each year by an average of 800 volunteers, these community members are a key part of the workforce that assists in providing client services. The minimum age for volunteering is 14 years old. New volunteers go through an extensive orientation and training process, and background checks are performed on those aged 18 and over. Several organizations and schools collaborate with The Shea Center to refer volunteers, including several National Charity League chapters (a mother/daughter volunteer service organization) and multiple high schools.

To improve business operations and outcome measurements, The Shea Center has made a significant investment to implement a business software platform called Salesforce. This software has been customized to meet the needs of The Shea Center, which is now able to report on and manage various aspects of the business with more in-depth information and analysis. It has allowed The Shea Center to increase transparency, results reporting, and efficiency. The first major deployment of the program was completed in 2014, two additional modules were deployed in 2015, and one more module and three major system enhancements were completed in 2016. The Shea Center launched a new website in 2017 that enhances the experience of its website visitors by providing more information, improving the ease of navigation, and increasing the quality of its graphics. This new website is now linked to Salesforce. The Shea Center completed the conversion of its donor management system to Salesforce in 2018. This new system provides increased visibility and analytical tools to more efficiently manage the multi-layered relationships between donors, volunteers, and clients. In 2019, the Organization migrated to the

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Salesforce Lightning platform to provide a more customized data interface and increase user efficiency and productivity. Gifts received from three donors, including the Capital Group Foundation, have made this technology conversion and investment possible. Salesforce.com, which developed and controls the Salesforce platform, is the world's fourth largest software company. Its platform is supported by many vendors and is used by a broad spectrum of companies around the world. Therefore, management of The Shea Center believes the Organization is not exposed to a significant risk from its increased reliance on this platform.

The Shea Center has also been able to deploy other software and technical advances to serve our clients and mission through the Salesforce platform. The Organization completed its first ever peer-reviewed research project thanks to a partnership with Chapman University, who did the data analysis of six months of data for children with autism and cerebral palsy. The Pediatric Disabilities Index Computer Adapted Test, or PEDI CAT, measures four domains of a child's development. Social/Cognitive, Mobility, Daily Activities and Responsibility are the areas measured. This tool allows us to report on how a child is doing and gives tangible examples to improve client treatment and parent support of the child at home. The outcomes of this project were presented at five major conferences in 2019 including the World Congress of Physical Therapy in Geneva, Switzerland. This is a first for any therapeutic equestrian facility worldwide.

Basis of presentation

The financial statements of The Shea Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Shea Center has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Contributions and pledges receivable

Unconditional contributions receivable are recorded at estimated net realizable value and are recognized as contribution income in the period in which they are received. The Shea Center reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Accounts receivable

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated on the basis of historical collection trends, type of customer, the age of outstanding receivables, and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances, and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. As of December 31, 2019 and 2018, the allowances for doubtful accounts were \$1,857 and \$5,976, respectively. Write offs of uncollectible receivables during the years ended December 31, 2019 and 2018 were \$5,258 and \$0, respectively.

Bequests and split interest agreements

The Shea Center encourages planned giving by its directors and donors and has been named a beneficiary in a number of known bequests. Bequests are not recognized as support until all of the following conditions are met: the donor passes, the amount of the bequest is known, The Shea Center is certain that, based on the estates' net assets, the amount bequeathed is realizable, and the probate court has declared the will valid.

The Shea Center records all such gifts as the value is determined. In 2019 and 2018, The Shea Center received \$0 and \$9,286, respectively, from donors' estates and those contributions are included in the accompanying financial statements. No other planned gifts have been recorded in the accompanying financial statements because donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable.

The Shea Center has been informed that the Organization has been named as the remainder beneficiary in a charitable remainder trust. Under generally accepted accounting principles, the benefits to be received by the Organization related to irrevocable split-interest agreements are generally measured at fair value and recorded as contributions. It is not known whether this trust was established as an irrevocable trust and the value of the underlying investments are not known. Therefore, the remainder benefit has not been recorded in these financial statements.

Revenue recognition

The Shea Center generates revenue for program services such as riding lessons, workshops and therapy, fundraising events, as well as from leased facilities and horse boarding.

The Shea Center recognizes revenue for program services and fundraising events when performance obligations, based on the terms of contracts, are satisfied and in an amount that reflects the consideration that the Organization expects to be entitled to in exchange for services. Generally, the revenue is recognized on the contracts as the performance obligation is satisfied, which is usually as the services are provided or as the event occurs.

The transaction prices related to program services and fundraising events are confirmed in writing in advance of providing the services or before the event is held. All contract revenues are recognized at the gross amount, however client services may then be reduced if the client qualifies for financial aid. The Organization's contracts do not include any consideration payable to clients. Noncash consideration is very rare in The Shea Center contracts but may occur when a client provides a service in exchange for therapy services provided by The Organization. In those cases, client-furnished services are valued at their estimated fair value.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue generated from leased facilities are recognized on a straight-line basis over the lease term (note 8). Revenue generated from horse boarding is recognized over the month that the space and care are provided.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the dates and for the periods presented. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers cash equivalents to include all highly liquid investments available for current use that 1) have an initial maturity of three months or less or 2) have an initial maturity over three months but are available for immediate withdrawal without incurring a significant penalty.

Concentrations of credit risk

During 2019 and 2018, The Shea Center maintained a significant portion of its cash accounts at financial institutions located in Southern California. Balances held in these bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and 2018, the uninsured cash balance in these accounts was \$0 and \$2,758, respectively. Furthermore, at December 31, 2019 and 2018, The Shea Center also held \$506,409 and \$292,702, respectively, in Treasury bills which are not FDIC insured but are guaranteed by the U.S. government.

Investments

The Shea Center endowment investments consist primarily of mutual funds and are reported at fair value in the statement of financial position. Unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the statement of activities as gains or losses on investments. Endowment investments at December 31, 2019 and 2018 totaled \$1,217,393 and \$548,401, respectively. See Note 12 for more information on this investment.

The Shea Center also has an investment interest in a privately held LLC which was established to meet the requirements of a workers' compensation insurance program. This investment is reported at cost which approximates fair value and totaled \$36,000 at December 31, 2019 and 2018. See Note 11 for more information on this investment.

Property and equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation when donated. Property and equipment acquired through a capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than one year.

Expenditures for renewals and betterments are capitalized and maintenance and repairs are charged to expense. Upon retirement or sale, the cost of assets disposed and the accumulated depreciation is removed from the accounts. The resulting gain or loss is credited or charged to income.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Property and equipment (continued)

The estimated useful lives of property and equipment are as follows:

	<u>Years</u>
Automotive	3 - 7
Fixtures and equipment	5 - 10
Horses	7 - 10
Building improvements	10
Land improvements	7 - 31.5
Equestrian facility	7 - 31.5
Buildings	31.5 - 39

Compensated absences

Full time employees receive annual benefits for paid time off based on length of employment. Unpaid vacation time off is paid to employees upon termination of employment and is accrued in the financial statements. The Shea Center's accrued compensated absences as of December 31, 2019 and 2018 were \$88,045 and \$76,610, respectively, and these amounts are included in accrued liabilities in the statements of financial position.

Deferred revenue

Deferred revenue consists of riding and therapy fees recognized over a future service period.

Endowment campaign

In 2018, The Shea Center launched *Always: The Shea Center Endowment Campaign* (the "Campaign"). The purpose of the Campaign is to raise funds to increase the endowment fund with the objective to provide earnings to support client services and The Shea Center's operating needs for the long term and to provide resources to allow it to continue to innovate for the future. Currently in its silent phase, the Campaign is focused on cultivating and soliciting prospective donors who are closest to the Organization, including members of the Board of Directors and others with whom the Organization has a pre-existing relationship. In the years ended December 31, 2019 and 2018, the Campaign received \$434,510 and \$137,900, respectively, for the Campaign. As of December 31, 2019 and 2018, signed pledges amounting to \$2,455,139 and \$200,200, respectively, were committed to be paid in the future to the Organization and those amounts have been included in revenue in the accompanying financial statements.

Functional allocation of expenses

Expenses consist of costs related to providing riding and therapy program services, fundraising, and administrative functions. Starting in 2018, expenses were also incurred for the new endowment campaign. The costs for each of these areas have been summarized on a functional basis in the statement of activities. Costs are charged directly to the functions they benefit. Costs incurred in connection with future activities are deferred until the activity occurs. Compensation to the Executive Director, Chief Operating Officer, and other employees who are involved in various functions are allocated to each function based on the estimated percentage of their time incurred in them. Facility related expenses are allocated to each function based on square footage utilized by that function. Utility expenses are allocated based on the estimated percentage used for each function. Some marketing and public relations expenses are allocated to the program and administration functions based on the content of materials sent out and in consideration of the party that receives them.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Donated goods and services

Contributions of non-cash assets are recorded at fair value in the period in which they are received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period in which they are received.

The Shea Center periodically receives donations of goods and services, including veterinary and horse care, support for facility projects, horses, and other items. During the years ended December 31, 2019 and 2018, donations of veterinary and horse care services valued at \$63,257 and \$44,928, respectively, were received. During those two years, horses and related supplies and equipment were also donated that amounted to \$24,077 and \$21,300, respectively. In addition, facility project services of \$2,000 and \$3,774, respectively, were received in those two years, and office equipment with a value of \$12,600 was donated in the year ended December 31, 2019.

In both 2019 and 2018, volunteers contributed many hours of service to The Shea Center (Note 1). However, the value of those services is not reflected in these financial statements because the criteria for recognition have not been satisfied.

Income tax status

The Shea Center is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The Shea Center is not a private foundation. The Organization can be liable for income taxes on profits from any unrelated business activity as defined by the Internal Revenue Code.

Uncertain tax positions

Management of The Shea Center considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes the liability for or discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities, including changes to the Organization's status as a not-for-profit entity. Management believes The Shea Center met the requirements to maintain its tax-exempt status and has not identified any uncertain tax positions subject to the unrelated business income tax that require recognition or disclosure in the accompanying financial statements. The Shea Center's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Subsequent events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Management believes there are no subsequent events for recording or disclosure in the financial statements for the year ended December 31, 2019. Subsequent events have been evaluated through April 9, 2020, which is the date the financial statements were available to be issued. See note 15 for disclosure of a subsequent event.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of organization and summary of significant accounting policies (continued)

Adoption of new accounting standard

The Financial Accounting Standards Board (FASB) issued a new accounting standard update ("ASU") No. 2014-09 "Revenue from Contracts with Customers (Topic 606)" The ASU developed a standard method for recognizing revenue from contracts. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Shea Center adopted the new standard effective January 1, 2019, the first day of the Organization's fiscal year using the modified retrospective approach.

The scope of the new standard does not affect how income is recognized from contributions, however it does apply to contracts for program services provided by The Shea Center as well as fundraising events.

As part of the adoption of the ASU, the Shea Center elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The adoption resulted in no change to beginning net assets as of January 1, 2019. There was no impact to revenue by applying this ASU for the year ended December 31, 2019.

Note 2 - Pledges receivable

Pledges receivable represent amounts committed by donors that have not been received by The Shea Center and unconditional pledges are recorded as income when pledged. Unconditional pledges due in the next year are reflected as current pledges and are recorded at their net realizable value. Unconditional pledges due in subsequent years are reflected as long-term pledges and are recorded at the present value of their net realizable value, using risk-free interest rates. The discount rate used on long-term pledges as of December 31, 2019 and 2018 is 4% and 5% respectively. The Shea Center uses the allowance method to determine uncollectible pledges receivable. The allowance is based on experience and management's analysis of specific promises made. In the years ended December 31, 2019 and 2018, there were no write-offs of uncollectible pledges.

The Organization's unconditional pledges receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 478,195	\$ 137,980
Receivable in one to five years	<u>2,113,439</u>	<u>150,000</u>
Total pledges receivable	2,591,634	287,980
Less: discounts to net present value	(8,068)	(7,140)
Less: allowance for uncollectible pledges	<u>(4,000)</u>	<u>(4,000)</u>
Net pledges receivable	<u>\$ 2,579,566</u>	<u>\$ 276,840</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 3 - Property and equipment

Property and equipment is comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Truck and farm equipment	\$ 52,035	\$ 50,535
Fixtures and equipment	992,665	909,858
Horses	147,500	160,500
Building improvements	14,273	14,273
Land improvements	1,952,197	1,946,328
Equestrian facility	2,191,693	2,191,693
Buildings	4,924,816	4,924,816
Construction in progress	7,801	87,708
Land	<u>3,725,672</u>	<u>3,725,672</u>
	14,008,652	14,011,383
Accumulated depreciation	<u>(3,845,462)</u>	<u>(3,524,892)</u>
	<u>\$ 10,163,190</u>	<u>\$ 10,486,491</u>

Construction in progress as of December 31, 2019 and 2018 consists of software and website development of \$6,571 and \$19,558, respectively, facility improvements of \$0 and \$63,594, and computer equipment not yet placed in service of \$1,230 and \$4,556. Construction in progress is stated at cost and is not depreciated until it is placed in service. The open projects as of December 31, 2019 are expected to be completed during 2020.

The land is subject to a donation agreement and gift deed issued in 2001 which limits the use of the property solely to that of a nonprofit therapeutic horseback riding facility and prohibits any encumbrance or transfer of the property to a third party without the prior approval of the grantor.

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$420,143 and \$397,848, respectively.

Note 4 - Lease obligations

Capital lease

The Shea Center had a long-term lease agreement (the "agreement") for the purchase of computer equipment. The economic substance of the agreement indicated that The Shea Center financed the acquisition of the equipment, so it was recorded as an asset and the capital lease was recorded as a liability in the statement of financial position using the present value of the minimum lease payments discounted at the interest rate implied in the lease agreement of 7.5% per annum. The net present value of the minimum lease payments equaled the fair value of the equipment. In December 2019, the Organization paid the remaining payments scheduled in the agreement to purchase the equipment. Prior to that time, monthly lease payments were \$408. The balance of the lease obligation as of December 31, 2019 and 2018 was \$0 and \$8,722 respectively.

The computer equipment under the capitalized lease was recorded at an original value of \$20,377, and the equipment retained that value when it was purchased. Accumulated amortization as of December 31, 2018 was \$6,113 and the accumulated amortization totaled \$8,151 as of December 31, 2019 when the agreement was paid off. Accumulated amortization is reported as accumulated depreciation in the statement of financial position.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 4 - Lease obligations (continued)Operating lease

The Shea Center leases office equipment under a non-cancellable operating lease. It requires quarterly payments of \$369 plus applicable taxes and is scheduled to expire in April 2021. Future lease obligations under the operating lease as of December 31, 2019 are as follows:

Years ending December 31,	
2020	\$ 1,571
2021	<u>524</u>
Future lease obligations	<u>\$ 2,095</u>

Rental expense to lease office equipment under the operating lease agreement was \$1,571 for both years ended December 31, 2019 and 2018.

Note 5 - Net assets without donor restrictions

A portion of the net assets without donor restrictions have been set aside by the Organization's Board of Directors for distinct purposes. The facilities maintenance fund was established to set aside funds for future maintenance projects. Additionally, in order to maximize the potential benefit of major unrestricted gifts, during 2019 and 2018, the Board committed funds totaling \$60,000 and \$67,169, respectively, to be invested as quasi-endowments (Note 12) for the purpose of providing income to sustain operations and programs.

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Facilities maintenance	\$ 302,183	\$ 291,819
Investments held as quasi-endowments	<u>515,472</u>	<u>369,383</u>
Total Board designated net assets	817,655	661,202
Undesignated net assets	<u>8,680,179</u>	<u>9,177,666</u>
Total net assets without donor restrictions	<u>\$ 9,497,834</u>	<u>\$ 9,838,868</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 6 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to passage of time or expenditure for specified purpose:		
General support for future periods		
Computer technology training	\$ 9,350	\$ 40,156
Financial aid	112,597	123,086
Military service programs	78,156	69,231
Increase program capacity	77,423	56,189
Programs for specified groups	82,835	59,218
Feed and care of therapy horses	98,921	95,107
Feed and care of therapy dog	11,275	15,502
Sponsorship for a future event	10,250	5,000
Awards for instructors and volunteers	10,000	15,000
Total general support for future periods	<u>490,807</u>	<u>478,489</u>
Support for investment in capital assets		
Design and build a sensory garden	50,000	50,000
Purchase farm vehicles	50,000	-
Acquire technology	25,000	2,497
Other facility improvements	1,500	1,500
Total support for investment in capital assets	<u>126,500</u>	<u>53,997</u>
Total subject to passage of time or expenditure for specified purpose	<u>617,307</u>	<u>532,486</u>
Not subject to appropriation or expenditure:		
Endowment funds (Note 12):		
Original gifts and required retained earnings (corpus)	633,909	184,400
Earnings (loss), net of management fees	68,012	(5,382)
Total endowment funds	701,921	179,018
Endowment pledges receivable	2,455,140	200,200
Donated land required to be used as a therapeutic horseback riding facility	3,725,672	3,725,672
Total not subject to appropriation or expenditure	<u>6,882,733</u>	<u>4,104,890</u>
Total net assets with donor restrictions	<u>\$ 7,500,040</u>	<u>\$ 4,637,376</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 7 - Special events

Special events for the years ended December 31, 2019 and 2018, consisted of the following:

	2019				
	Income	Contributions	Direct benefit to donors	Fundraising costs	Net income
Bar-be-cue	\$ 179,948	\$ 912,502	\$ 249,004	\$ 145,109	\$ 698,337
Black tie gala	209,157	811,384	207,140	126,632	686,769
Other events	32,820	5,419	9,542	2,374	26,323
	<u>\$ 421,925</u>	<u>\$ 1,729,305</u>	<u>\$ 465,686</u>	<u>\$ 274,115</u>	<u>\$ 1,411,429</u>

	2018				
	Income	Contributions	Direct benefit to donors	Fundraising costs	Net Income
Bar-be-cue	\$ 167,525	\$ 903,044	\$ 227,195	\$ 125,946	\$ 717,428
Black tie gala	181,793	655,806	182,754	108,352	546,493
Other events	17,510	2,693	7,937	2,288	9,978
	<u>\$ 366,828</u>	<u>\$ 1,561,543</u>	<u>\$ 417,886</u>	<u>\$ 236,586</u>	<u>\$ 1,273,899</u>

Generally accepted accounting principles require that revenue and expenses from special events be reported in the statement of activities as gross amounts if the events are part of the Organization's ongoing major activities. The amounts listed above as "Direct benefit to donors" are the costs incurred in the event from which the attendees derive a benefit.

Note 8 - Leased facilities

In August 2013, The Shea Center entered a land lease agreement with a tenant to use a portion of The Shea Center's real property for placement of a communication facility. The construction of that facility was completed in 2017. The initial lease term was for five years with four automatic renewal options of five years each and was automatically renewed for a five year term in August 2018. Rental payments in effect as of December 31, 2019 are \$2,030 per month and the amount to be paid in the future is subject to scheduled escalations over the term of the agreement.

The Shea Center received rental payments from the tenant totaling \$23,890 and \$23,194 for the years ended December 31, 2019 and 2018, respectively. There were no rents receivable as of December 31, 2019 and 2018.

As of December 31, 2019, the terms of the lease for the communication facility include future minimum rental income as follows:

Years ending December 31,	
2020	\$ 24,602
2021	25,340
2022	26,101
2023	17,745
Future lease income	<u>\$ 93,788</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 8 - Leased facilities (continued)

The Shea Center also has an agreement from 2016 to rent office space on a month-to-month basis to a tenant. Rental payments in effect as of December 31, 2019 are \$1,400 per month. Rent received under this agreement totaled \$16,800 each year in the years ended December 31, 2019 and 2018.

The Shea Center may rent portions of its facilities under short-term agreements for select events. Payments received under these short-term agreements were \$3,100 and \$5,150 for the years ended December 31, 2019 and 2018, respectively.

Note 9 - Related party transactions

During the years ended December 31, 2019 and 2018, The Shea Center received donations and other fundraising support from Board members totaling \$1,309,998 and \$865,846, respectively. Balances of pledges receivable from Board members as of December 31, 2019 and 2018 totaled \$352,327 and \$215,040, respectively.

During the years ended December 31, 2019 and 2018, The Shea Center received donations and other fundraising support from employees totaling \$10,639 and \$17,866, respectively. Pledges receivable of \$100 and \$200, respectively, were due from employees as of December 31, 2019 and 2018.

Note 10 - Retirement plan

The Shea Center has a 403(b) retirement plan for all employees meeting certain eligibility requirements such as length of service, age and hours of service. Employees may elect to treat a portion of their salary as tax deferred compensation under the plan. The Shea Center initiated an employer matching program in 2017 that includes certain limits and qualifications and calls for the Organization to match 50% of employee contributions up to 5% of their compensation in 2019 and up to 4% in 2018. The total amount of employee contributions that were matched by The Shea Center in 2019 and 2018 was \$36,455 and \$29,590, respectively. Retirement plan fees for the years ended December 31, 2019 and 2018 totaled \$4,032 and \$3,573, respectively.

Note 11 - Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, is as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amount of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and deferred revenue approximated their fair values due to the short-term nature of these instruments.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 11 - Fair value measurements (continued)

The Organization's endowment investments and pledges receivable are reported at fair value in the accompanying statement of financial position. The investment in a privately held LLC is recorded at cost which approximates fair value due to the nature of the investment.

The following table sets forth by level within the fair value hierarchy the Organization's assets at fair value as of December 31, 2019 and 2018.

	Fair value measurements using:			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>December 31, 2019</u>				
Investments:				
Mutual funds	\$ 1,217,393	\$ 1,217,393	\$ -	\$ -
Member units in privately held LLC	36,000	-	-	36,000
Pledges receivable	2,579,566	-	-	2,579,566
Total	<u>\$ 3,832,959</u>	<u>\$ 1,217,393</u>	<u>\$ -</u>	<u>\$ 2,615,566</u>
<u>December 31, 2018</u>				
Investments:				
Mutual funds	\$ 548,401	\$ 548,401	\$ -	\$ -
Member units in privately held LLC	36,000	-	-	36,000
Pledges receivable	276,840	-	-	276,840
Total	<u>\$ 861,241</u>	<u>\$ 548,401</u>	<u>\$ -</u>	<u>\$ 312,840</u>

Fair value measurements using significant unobservable inputs (Level 3):

	Pledges receivable	Investments
Balance, December 31, 2017	\$ 127,095	\$ 36,000
Total gains or losses (realized and unrealized)	3,155	-
Purchases	-	-
Sales	-	-
Issuances	1,347,942	-
Settlements	(1,201,352)	-
Balance, December 31, 2018	276,840	36,000
Total gains or losses (realized and unrealized)	(928)	-
Purchases	-	-
Sales	-	-
Issuances	4,028,738	-
Settlements	(1,725,084)	-
Balance, December 31, 2019	<u>\$ 2,579,566</u>	<u>\$ 36,000</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 11 - Fair value measurements (continued)

Unrealized gains (losses) are included in contribution income in the revenue section of the statement of activities. Included in this amount are \$8,068 and \$7,140 of unrealized losses on Level 3 assets held at December 31, 2019 and 2018, respectively.

Note 12 - Endowment funds

The Shea Center's endowment is held in diversified investment funds and is comprised of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The classification of these funds is based upon the existence or absence of donor-imposed restrictions.

The Shea Center has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date for the donor restricted endowment funds in the absence of explicit donor stipulations to the contrary. As a result of this interpretation, endowment funds received on which donors have placed restrictions are classified separately from funds without donor restrictions until they are appropriated for expenditure.

Although UPMIFA does not preclude the Center from spending below the original gift value of donor-restricted endowments, the Center considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Center has adopted a policy to make distributions from the endowment funds based on the average balances over three years. However, with the exception of portfolio management fees charged to those accounts, The Shea Center has retained all endowment contributions and earnings in the accounts and plans to do so until such time as the Board of Directors determines that the funds have grown to a level to support operations and future initiatives while meeting all donor restrictions.

The composition of endowment funds by type of fund as of December 31, 2019 is as follows:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gain (losses) and other	Total with donor restrictions	
Donor-restricted funds - Historical Endowment	\$ -	\$ 199,400	\$ 23,934	\$ 223,334	\$ 223,334
Donor-restricted funds - Always Campaign	-	434,509	44,077	478,587	478,587
Board - designated funds	515,472	-	-	-	515,472
	<u>\$ 515,472</u>	<u>\$ 633,909</u>	<u>\$ 68,011</u>	<u>\$ 701,921</u>	<u>\$ 1,217,393</u>

The composition of endowment funds by type of fund as of December 31, 2018 is as follows:

	Without donor restrictions	With donor restrictions			Total funds
		Original gift amount	Accumulated gain (losses) and other	Total with donor restrictions	
Donor-restricted funds - Historical Endowment	\$ -	\$ 46,500	\$ 1,877	\$ 48,377	\$ 48,377
Donor-restricted funds - Always Campaign	-	137,900	(7,259)	130,641	130,641
Board - designated funds	369,383	-	-	-	369,383
	<u>\$ 369,383</u>	<u>\$ 184,400</u>	<u>\$ (5,382)</u>	<u>\$ 179,018</u>	<u>\$ 548,401</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 12 - Endowment funds (continued)

The changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Board Designated Endowments Without Donor Restrictions	Endowments With Donor Restrictions	Totals
Endowment funds, December 31, 2017	\$ 328,990	\$ 35,492	\$ 364,482
Contributions	67,169	152,900	220,069
Investment income	7,757	2,213	9,970
Net change in value	(32,610)	(11,286)	(43,896)
Fund management fees	(1,923)	(301)	(2,224)
Endowment funds, December 31, 2018	369,383	179,018	548,401
Contributions	60,000	449,510	509,510
Investment Income	9,081	9,887	18,968
Net change in value	78,665	64,883	143,548
Fund management fees	(1,657)	(1,377)	(3,034)
Endowment funds, December 31, 2019	<u>\$ 515,472</u>	<u>\$ 701,921</u>	<u>\$ 1,217,393</u>

Unconditional pledges receivable that are restricted by donors for investment in perpetuity are not considered endowment net assets until the proceeds have been received and added to the investment held for endowment.

Funds with deficiencies: From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. Deficiencies of this nature existed within the "Always Campaign" fund as of December 31, 2018, which had an original gift value of \$127,900, a current fair value of \$120,641 and a deficiency of \$7,259. This deficiency resulted from unfavorable market conditions that occurred shortly after the investment of new perpetually restricted contributions were received. There were no fund deficiencies as of the year ended December 31, 2019.

Return objectives and risk parameters: The Center has adopted investment and spending policies for endowment assets that attempt to produce results that exceed the aggregate costs of portfolio management, the long-term inflation rate and any growth factor that the board may, from time to time, determine appropriate, while assuming a moderate level of investment risk.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 13 – Funds held for others

The Shea Center acts as agent in managing certain funds provided by a specific donor for the benefit of a specific beneficiary. As agent, the Organization collected the cash funds and disburses the funds periodically as required by the beneficiary under the terms specified by the donor. The Organization, in its capacity as agent, does not have variance power over the use of funds or the selection of beneficiary. The balance of funds held for the benefit of others as of December 31, 2019 and 2018 is \$35,026 and \$38,356, respectively.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 14 – Liquidity and availability of financial assets

The Shea Center's primary sources of support are from its fundraising activities related to contributions from private organizations and individuals, a large portion of which is received during two major fundraising events held each year. Accordingly, the Organization's working capital and cash flows fluctuate during the year as funds are received for those events, which include the Black Tie Gala in the second quarter of the calendar year and the Bar-be-cue in the third quarter of the calendar year. There is also a higher concentration of contributions received in the fourth quarter of the calendar year related to year-end charitable giving. Monthly cash outflows for staff and to manage the herd and facilities are fairly consistent from month to month, but expenditures can fluctuate with the number of clients served and as payments are made for the fundraising events.

To manage liquidity, the Shea Center has an operating cash management policy with an objective to maintain operating cash reserves equal to approximately twelve months of budgeted operating cash requirements. These reserves are invested in liquid assets and are drawn upon as needed during the year to manage cash flow. The policy follows four guiding principles: 1) provide adequate liquidity to fund near-term operations, 2) provide sufficient reserves to give reasonable assurance to absorb a disruption in budgeted cash flow, 3) safeguard and preserve assets, and 4) optimize the return on assets.

The following reflects The Shea Center's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of donor-placed restrictions or internal designations. Amounts available include donor-restricted funds that are available for expenditure in the following year. Amounts not available include amounts set aside for the endowment fund and donor-restricted amounts that are unavailable for expenditure in the following year. The amount not available also includes funds designated by The Shea Center's Board as reserves for future requirements and quasi-endowment investments, however they could be drawn upon if the Board approved that action.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents, including restricted cash	\$ 2,520,972	\$ 2,765,776
Accounts receivable, net, collected in less than one year	45,276	32,791
Pledges receivable, net, collected in less than one year	474,195	133,980
Cash held for long term purposes	438,235	364,684
Investments	<u>1,217,393</u>	<u>548,401</u>
Total financial assets, excluding non-current receivables	4,696,071	3,845,632
Donor-imposed or Board-designated restrictions:		
Funds held for others	(35,026)	(38,356)
Cash restricted by donors for specific purposes	(136,053)	(72,865)
Pledges receivable restricted by donors for specific purposes	(341,701)	(50,200)
Board-designated reserves for future requirements	(302,183)	(291,819)
Board-designated investments held as quasi-endowments	(515,472)	(369,383)
Endowments with donor restrictions	<u>(701,921)</u>	<u>(179,018)</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 2,663,715</u>	<u>\$ 2,843,991</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 15 – Subsequent events

The COVID-19 outbreak in the United States has caused business disruption through mandated closing of business operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Shea Center expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.