



Independent Auditors' Report and
Financial Statements for

J. F. Shea Therapeutic Riding Center, Inc.

December 31, 2021 and 2020

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

Opinion

We have audited the accompanying financial statements of J. F. Shea Therapeutic Riding Center, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of J. F. Shea Therapeutic Riding Center, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about J. F. Shea Therapeutic Riding Center, Inc. ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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To the Board of Directors
J. F. Shea Therapeutic Riding Center, Inc.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of J. F. Shea Therapeutic Riding Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about J. F. Shea Therapeutic Riding Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Redwitz, Inc.
Irvine, California
March 31, 2022

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Financial Position

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,060,271	\$ 2,352,726
Accounts receivable, net	518,925	22,611
Pledges receivable, net	2,092,363	191,378
Prepaid expenses	156,166	197,813
Other assets	<u>6,200</u>	<u>6,200</u>
Total current assets	<u>5,833,925</u>	<u>2,770,728</u>
Property and equipment, net of accumulated depreciation	<u>9,527,006</u>	<u>9,872,042</u>
Other assets		
Cash held for long term purposes	493,919	468,854
Pledges receivable, net of current portion	39,829	2,030,251
Deposits	110,137	103,891
Investments - held for long term purposes	36,000	36,000
Investments - endowments	<u>2,341,095</u>	<u>2,027,791</u>
Total other assets	<u>3,020,980</u>	<u>4,666,787</u>
Total assets	<u><u>\$ 18,381,911</u></u>	<u><u>\$ 17,309,557</u></u>

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Financial Position

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 40,908	\$ 30,288
Accrued liabilities	142,650	139,084
Deferred revenue	65,453	53,349
Funds held for others	<u>31,141</u>	<u>33,026</u>
Total current liabilities	<u>280,152</u>	<u>255,747</u>
Total liabilities	<u>280,152</u>	<u>255,747</u>
Net assets		
Without donor restrictions		
Undesignated	8,908,778	8,079,582
Designated by the Board for facilities maintenance	365,604	311,386
Designated by the Board for investment held as quasi-endowments	<u>631,711</u>	<u>579,479</u>
	<u>9,906,093</u>	<u>8,970,447</u>
With donor restrictions		
Purpose restricted	691,802	719,821
Perpetual in nature	<u>7,503,864</u>	<u>7,363,542</u>
	<u>8,195,666</u>	<u>8,083,363</u>
Total net assets	<u>18,101,759</u>	<u>17,053,810</u>
Total liabilities and net assets	<u>\$ 18,381,911</u>	<u>\$ 17,309,557</u>

J.F. Shea Therapeutic Riding Center, Inc.

Statement of Activities

For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	2021 Total
Revenue and support			
Gross riding and therapy fees	\$ 1,000,486	\$ -	\$ 1,000,486
Less: financial aid	(267,000)	-	(267,000)
Net riding and therapy fees	733,486	-	733,486
Boarding fees	6,800	-	6,800
Forgiveness of note payable - CARES Act, including accrued interest	552,490	-	552,490
Employee retention tax credit	759,668	-	759,668
Contributions - program	3,160,730	769,586	3,930,316
Contributions - capital	16,287	-	16,287
Contributions - endowment	-	650	650
In-kind contributions (Note 1)	47,435	-	47,435
Special events (Note 7)	241,146	-	241,146
Facility rental	42,144	-	42,144
Interest and dividends, net of expenses	8,266	18,750	27,016
Gain on investments	45,322	121,922	167,244
Gain on sale/disposal of property	227	-	227
Net assets released from restrictions			
Satisfaction of program restrictions	769,436	(769,436)	-
Satisfaction of capital restrictions	29,169	(29,169)	-
Total revenue and support	6,412,606	112,303	6,524,909
Expenses			
Program services			
Riding and therapy	3,445,777	-	3,445,777
Direct benefits to donors (Note 7)	475,669	-	475,669
Supporting services			
Management and general	392,147	-	392,147
Endowment campaign	34,847	-	34,847
Fundraising	1,128,520	-	1,128,520
Total expenses	5,476,960	-	5,476,960
Increase in net assets	935,646	112,303	1,047,949
Net assets at beginning of year	8,970,447	8,083,363	17,053,810
Net assets at end of year	\$ 9,906,093	\$ 8,195,666	\$ 18,101,759

See accompanying notes to financial statements

J.F. Shea Therapeutic Riding Center, Inc.

Statement of Activities

For the Year Ended December 31, 2020

	Without donor restrictions	With donor restrictions	2020 Total
Revenue and support			
Gross riding and therapy fees	\$ 543,922	\$ -	\$ 543,922
Less: financial aid	(157,035)	-	(157,035)
Net riding and therapy fees	386,887	-	386,887
Boarding fees	9,950	-	9,950
Forgiveness of note payable - CARES Act, including accrued interest	520,226	-	520,226
Contributions - program	2,285,679	682,824	2,968,503
Contributions - capital	6,319	75,000	81,319
Contributions - endowment	-	289,634	289,634
In-kind contributions (Note 1)	104,188	-	104,188
Special events (Note 7)	62,873	-	62,873
Facility rental	37,207	-	37,207
Interest and dividends, net of expenses	29,588	29,066	58,654
Gain (loss) on investments	69,105	152,465	221,570
Gain (loss) on sale/disposal of property	(13,267)	-	(13,267)
Net assets released from restrictions			
Satisfaction of program restrictions	597,345	(597,345)	-
Satisfaction of capital restrictions	48,321	(48,321)	-
Total revenue and support	4,144,421	583,323	4,727,744
Expenses			
Program services			
Riding and therapy	3,247,490	-	3,247,490
Direct benefits to donors (Note 7)	70,366	-	70,366
Supporting services			
Management and general	303,923	-	303,923
Endowment campaign	132,408	-	132,408
Fundraising	917,621	-	917,621
Total expenses	4,671,808	-	4,671,808
Increase (decrease) in net assets	(527,387)	583,323	55,936
Net assets at beginning of year	9,497,834	7,500,040	16,997,874
Net assets at end of year	\$ 8,970,447	\$ 8,083,363	\$ 17,053,810

J.F. Shea Therapeutic Riding Center, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2021

	Program services	Supporting services			2021
	Riding and therapy	Management and general	Endowment campaign	Fundraising expenses	Total expenses
Salaries	\$ 1,901,082	\$ 267,511	\$ 29,399	\$ 630,638	\$ 2,828,630
Employee benefits	193,688	26,368	2,611	56,062	278,729
Payroll taxes	157,966	21,207	2,233	47,932	229,338
Total personnel expenses	2,252,736	315,086	34,243	734,632	3,336,697
Continuing education	22,663	581	-	4,232	27,476
Credit card and bank charges	19,156	4,839	100	40,034	64,129
Depreciation	357,356	12,401	-	54,252	424,009
Event auction costs	-	-	-	19,197	19,197
Event décor and supplies	-	-	-	13,623	13,623
Feed and horse care supplies	106,476	-	-	-	106,476
Insurance	41,351	350	-	-	41,701
Interest expense	1,834	194	47	532	2,607
Marketing and public relations	16,786	2,554	-	91,489	110,829
Miscellaneous	23,369	1,672	-	26,196	51,237
Other campaign direct expenses	3,851	-	-	84,899	88,750
Professional services	259,755	42,841	-	23,312	325,908
Program and office supplies	67,900	5,902	-	24,278	98,080
Repairs and maintenance	134,170	1,372	457	6,668	142,667
Therapy support services	79,801	-	-	-	79,801
Uncollected fees and pledges	153	-	-	-	153
Utilities and telephone	58,420	4,355	-	5,176	67,951
Total functional expenses	<u>\$ 3,445,777</u>	<u>\$ 392,147</u>	<u>\$ 34,847</u>	<u>\$ 1,128,520</u>	<u>\$ 5,001,291</u>

J.F. Shea Therapeutic Riding Center, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2020

	Program services	Supporting services			2020
	Riding and therapy	Management and general	Endowment campaign	Fundraising expenses	Total expenses
Salaries	\$ 1,820,427	\$ 207,630	\$ 46,915	\$ 549,259	\$ 2,624,231
Employee benefits	191,692	15,717	6,150	38,526	252,085
Payroll taxes	148,665	16,145	3,084	41,559	209,453
Total personnel expenses	2,160,784	239,492	56,149	629,344	3,085,769
Continuing education	16,672	376	-	5,798	22,846
Credit card and bank charges	10,732	5,262	129	25,646	41,769
Depreciation	361,589	11,522	-	52,661	425,772
Event auction costs	-	-	-	7,926	7,926
Event décor and supplies	-	-	-	445	445
Feed and horse care supplies	93,035	-	-	-	93,035
Insurance	39,205	350	-	-	39,555
Interest expense	1,925	204	49	558	2,736
Marketing and public relations	12,015	1,738	5,075	56,700	75,528
Miscellaneous	7,936	231	-	14,565	22,732
Other campaign direct expenses	1,109	-	-	61,567	62,676
Professional services	259,999	33,210	66,183	20,143	379,535
Program and office supplies	59,523	5,678	1,436	31,480	98,117
Repairs and maintenance	126,515	1,333	345	5,533	133,726
Therapy support services	37,934	-	-	-	37,934
Uncollected fees and pledges	545	-	3,042	-	3,587
Utilities and telephone	57,972	4,527	-	5,255	67,754
Total functional expenses	\$ 3,247,490	\$ 303,923	\$ 132,408	\$ 917,621	\$ 4,601,442

J.F. Shea Therapeutic Riding Center, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,047,949	\$ 55,936
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term purposes	-	(75,000)
Contributions of property, equipment and land	-	(24,100)
(Gain) loss on sale/disposal of property	(227)	13,267
Gain on investments	(167,244)	(221,570)
Forgiveness of note payable - CARES Act	(549,884)	(517,490)
Change in reserve for uncollectible accounts receivable	-	(4,119)
Change in reserve for uncollectible pledges	-	3,042
Change in pledge discounts	422	(6,319)
Change in funds held for others	(1,885)	(2,000)
Depreciation	424,009	425,772
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(496,314)	26,784
Pledges receivable	89,015	361,214
Prepaid expenses	41,647	(82,187)
Deposits	(6,246)	(666)
Increase (decrease) in:		
Accounts payable	10,620	6,271
Accrued liabilities	3,566	21,724
Deferred revenue	12,104	1,943
Net cash provided (used) by operating activities	<u>407,532</u>	<u>(17,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash held for long-term purposes	(54,234)	(13,505)
Purchases of property and equipment	(88,146)	(124,542)
Proceeds from sales of property and equipment	9,400	751
Investment purchases	(171,720)	(629,979)
Investment income, net of fees	25,660	41,151
Net cash used by investing activities	<u>(279,040)</u>	<u>(726,124)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Use of funds held for long-term purposes	29,169	57,886
Proceeds from note payable - CARES Act	549,884	517,490
Net cash provided by financing activities	<u>579,053</u>	<u>575,376</u>
Net increase (decrease) in cash	707,545	(168,246)
Cash and cash equivalents at beginning of year	<u>2,352,726</u>	<u>2,520,972</u>
Cash and cash equivalents at end of year	<u>\$ 3,060,271</u>	<u>\$ 2,352,726</u>

See accompanying notes to financial statements

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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 1978 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 55 disabilities were treated at The Shea Center in 2021, including 1) autism, 2) cerebral palsy, 3) genetic disorders, 4) developmental delay, 5) ADHD, 6) stroke, and a number of other physical and cognitive challenges. Clients are as young as two years old and the oldest client served is 89. On average, clients under the age of 18 comprise over 76 percent of the individuals seen by Shea professionals. The average treatment period for a Shea Center client is 1-5 years.

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.

Equine assisted therapies 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, fundraising, board governance, and sustainable business practices for the nonprofit. Any fees received in 2021 and 2020 for these training activities are included in revenue in the accompanying financial statements.

The Shea Center employs 45 full and part-time staff and served over 800 clients in 2021. Accordingly, volunteerism is a vital component to support its programs. With approximately 18,000 volunteer hours given this year by more than 560 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 an updated 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 website is now linked to Salesforce. The Shea Center completed the conversion of its donor management system to Salesforce in 2018. This 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 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

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

conversion and investment possible. Salesforce.com, which developed and controls the Salesforce platform, is one of the world's largest software companies. 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 its clients and mission through the Salesforce platform. In 2019, 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 The Shea Center 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.

COVID-19 pandemic

The COVID-19 pandemic developed rapidly in 2020 with a significant number of cases throughout the world. Measures taken by various governments and public health authorities to contain the virus affected economic activity in 2020 and continued into 2021, albeit to a lesser extent due to changes in restrictions.

The Organization closed in March 2020 pursuant to Governor Newsom's Stay at Home order, except for the essential services related to horse care. After making physical improvements to the facilities (e.g., installing handwashing stations and upgrading HVAC filtration systems), and establishing COVID-19 safety protocols, The Shea Center reopened as an essential service provider in June 2020 for hippotherapy clients and for adaptive riding clients in July 2020, with both having limited treatments or every-other-week client lessons. Moreover, due to the pandemic all school-related and senior programs as well as large group activities such as summer camps were cancelled.

In 2021, the Organization returned to a more consistent schedule and resumed summer camps and some school-related programs. This led 2021 client service hours to reach over 14,000 hours compared to about 8,400 hours in 2020.

Additionally, the military partnership program with an Orange County veterans center grew significantly year-over-year. The need for equine assisted activities and therapies for veterans increased due to the impact of the shutdown and the lack of other available services. Adaptive riding services were outdoors and provided for a lower COVID-19 exposure risk environment. The Military Family Reunification program (military family members riding together) also grew considerably compared to previous years. The hours associated with these programs increased from about 1,100 hours in 2020 to over 2,700 hours in 2021.

Furthermore, with the easing of COVID-19 restrictions by the California Department of Public Health, the Organization was able to have in-person gatherings and hold its two annual fundraising events in 2021. Both were either cancelled or held virtually in 2020. The Gala in June was held outdoors at the Montage in Laguna Beach, and the BBQ and Family Faire was held in September onsite at The Shea Center (Note 7).

The impact of the pandemic also resulted in postponing the launch of the Endowment Campaign public phase (Notes 1 and 12).

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

COVID-19 pandemic (continued)

The Organization received loans through the Small Business Administration (SBA) Paycheck Protection Program (PPP) in 2020 and 2021. These loans were subsequently forgiven pursuant to provisions of the CARES Act that was passed by Congress and are included in the Statement of Activities. Also, pursuant to the American Rescue Plan Act in 2021, the Organization qualified for the Employee Retention Tax Credit (ERTC) and the amount of those credits are included in the Statement of Activities. The tax credits due to the Organization are included in accounts receivable in the Statement of Financial Position. These federal support programs allowed The Shea Center to retain staff during the shutdown and positioned the Organization for a relatively smooth restart of services in June and July 2020, and a return to near pre-pandemic activity levels in 2021.

Although the Organization is monitoring the effects of the current situation with the novel coronavirus (COVID-19), it cannot predict for how long or the extent to which the continued impact of the virus, additional variants and possible new strains may have on the Organization's client services, operations and fundraising efforts. There is also continued uncertainty around the duration of any government mandates and restrictions. The Shea Center, as a provider of essential services to its clients, expects to remain open for equine assisted activities and therapies. However, a prolonged outbreak could negatively impact the Organization's operations and adversely affect results of the business. Any adverse impact on results of operations, business or financial outlook could be material.

The Organization will continue to follow the various government policies and advice and, in parallel, will do the utmost to continue operations in the best and safest manner possible without jeopardizing the health of others.

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.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

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.

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, 2021 and 2020, the allowance for doubtful accounts is \$1,876 and \$1,857, respectively. Write-offs of uncollectible receivables during the years ended December 31, 2021 and 2020 were \$153 and \$545, respectively. Included in accounts receivable are Employee Retention Tax Credits totaling \$472,604 as of December 31, 2021.

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 2021 and 2020, The Shea Center did not receive any funds from donors' estates. 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 therapy, riding lessons and workshops, and 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. Revenue recognized on contracts related to therapy, riding lessons, workshops and fundraising events are recognized at a point in time when services are provided or fundraising events occur.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

Revenue recognition (continued)

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.

Revenue generated from leased facilities is 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 2021 and 2020, 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. As of December 31, 2021 and 2020, the Center had no uninsured accounts. However, at December 31, 2021 and 2020, the Center held \$124,702 and \$324,954, 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, 2021 and 2020 totaled \$2,341,095 and \$2,027,791, 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, 2021 and 2020. See Note 11 for more information on this investment.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

Property and equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation when donated. 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.

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

	<u>Years</u>
Automotive	3 - 7
Fixtures and equipment	5 - 10
Horses	5 - 10
Building improvements	7 - 10
Land improvements	7 - 31.5
Equestrian facility	5 - 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, 2021 and 2020 were \$109,484 and \$108,551, respectively, and these amounts are included in accrued liabilities in the statements of financial position.

Deferred revenue

Deferred revenue consists primarily 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, 2021 and 2020, the Campaign received funds totaling \$120,400 and \$539,966, respectively. As of December 31, 2021 and 2020, signed pledges amounting to \$2,068,808 and \$2,189,558, respectively, were committed to be paid in the future to the Organization.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

Functional allocation of expenses

Expenses consist of costs related to providing riding and therapy program services, fundraising, and administrative functions, including expenses related to the 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 Chief Executive Officer, 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 expenses based on the content of the printed materials and in consideration of the party that receives them.

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 received the following donated goods and services during the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Veterinary and horse care	\$ 41,085	\$ 70,238
Horses and related supplies and equipment	4,200	28,200
Facility project services	2,150	-
Legal services	-	2,650
Office equipment	-	3,100
	<u> </u>	<u> </u>
Total	<u>\$ 47,435</u>	<u>\$ 104,188</u>

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

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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

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. Subsequent events have been evaluated through March 31, 2022, which is the date the financial statements were available to be issued. See Note 15 for disclosure of a subsequent event.

New accounting standards not yet adopted

The FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) which requires lessees to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for financial statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The standard will be applied using a modified retrospective approach with optional expedients and other special transition provisions. The new standard is effective for the Organization's fiscal year which begins on January 1, 2022. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

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, 2021 and 2020 is 4%. 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. Write offs of uncollectible pledges during the years ended December 31, 2021 and 2020 were \$0 and \$250, respectively.

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

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 2,099,113	\$ 198,128
Receivable in one to five years	42,000	2,032,000
Total pledges receivable	<u>2,141,113</u>	<u>2,230,128</u>
Less: discounts to net present value	(2,171)	(1,749)
Less: allowance for uncollectible pledges	<u>(6,750)</u>	<u>(6,750)</u>
Net pledges receivable	<u>\$ 2,132,192</u>	<u>\$ 2,221,629</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 3 - Property and equipment

Property and equipment is comprised of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Truck and farm equipment	\$ 94,020	\$ 68,276
Fixtures and equipment	1,074,929	1,059,899
Horses	162,137	150,000
Building improvements	38,856	28,857
Land improvements	1,952,197	1,952,197
Equestrian facility	2,203,618	2,196,128
Buildings	4,924,816	4,924,816
Construction in progress	2,562	5,316
Land	<u>3,725,672</u>	<u>3,725,672</u>
	14,178,807	14,111,161
Accumulated depreciation	<u>(4,651,801)</u>	<u>(4,239,119)</u>
	<u>\$ 9,527,006</u>	<u>\$ 9,872,042</u>

Construction in progress as of December 31, 2021 consists of software development costs totaling \$2,562 and as of December 31, 2020, consist of software and website development costs totaling \$4,252 and computer equipment not yet placed in service totaling \$1,064. Construction in progress is stated at cost and is not depreciated until it is placed in service. The open projects as of December 31, 2020 were placed in service during 2021 and the open projects as of December 31, 2021 are expected to be completed during 2022.

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, 2021 and 2020 totaled \$424,009 and \$425,772, respectively.

Note 4 - Lease obligations

Operating lease

The Shea Center leased office equipment under a non-cancellable operating lease which required quarterly payments of \$369 and expired April 2021. The Center also executed a new non-cancellable operating lease for office equipment beginning May 2021 which requires quarterly payments of \$332 plus applicable taxes and is scheduled to expire in July 2026. Future lease obligations under the operating lease as of December 31, 2021 are as follows:

Years ending December 31,	
2022	\$ 1,328
2023	1,328
2024	1,328
2025	1,328
2026	<u>775</u>
Future lease obligations	<u>\$ 6,087</u>

Rental expense to lease office equipment under the operating lease agreements was \$1,452 and \$1,571 for the years ended December 31, 2021 and 2020, respectively.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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, the Board commits accumulated funds 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>2021</u>	<u>2020</u>
Facilities maintenance	\$ 365,604	\$ 311,386
Investments held as quasi-endowments	<u>631,711</u>	<u>579,479</u>
Total Board designated net assets	997,315	890,865
Undesignated net assets	<u>8,908,778</u>	<u>8,079,582</u>
Total net assets without donor restrictions	<u>\$ 9,906,093</u>	<u>\$ 8,970,447</u>

Note 6 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to passage of time or expenditure for specified purpose:		
General support for future periods		
Computer technology training	\$ 1,044	\$ 10,670
General operations to be used in future years	29,291	-
Financial aid	121,195	94,993
Military service programs	113,986	73,407
Increase program capacity	-	65,000
Programs for specified groups	169,566	149,395
Feed and care of therapy horses	122,689	123,524
Feed and care of therapy dog	-	7,668
Sponsorship for a future event	10,000	35,250
Awards for instructors and volunteers	<u>20</u>	<u>6,735</u>
Total general support for future periods	<u>567,791</u>	<u>566,642</u>
Support for investment in capital assets		
Design and build a sensory garden	50,000	50,000
Purchase farm vehicles	-	19,884
Acquire technology	20,000	20,000
Facility improvements	<u>54,011</u>	<u>63,295</u>
Total support for investment in capital assets	<u>124,011</u>	<u>153,179</u>
Total subject to passage of time or expenditure for specified purpose	<u>691,802</u>	<u>719,821</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 6 - Net assets with donor restrictions (continued)

	2021	2020
Not subject to appropriation or expenditure:		
Endowment funds (Note 12)		
Original gifts and required retained earnings (corpus)	\$ 1,319,169	\$ 1,198,769
Earnings (loss), net of management fees	390,215	249,543
Total endowment funds	1,709,384	1,448,312
Endowment pledges receivable	2,068,808	2,189,558
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	7,503,864	7,363,542
Total net assets with donor restrictions	<u>\$ 8,195,666</u>	<u>\$ 8,083,363</u>

Note 7 - Special events

Special events for the years ended December 31, 2021 and 2020, consisted of the following:

	2021				
	Income	Contributions	Direct benefit to donors	Fundraising costs	Net income
Bar-be-cue	\$ 147,870	\$ 890,545	\$ 279,280	\$ 76,053	\$ 683,082
Black tie gala	93,276	543,937	196,389	45,889	394,935
Other events	-	-	-	-	-
	<u>\$ 241,146</u>	<u>\$ 1,434,482</u>	<u>\$ 475,669</u>	<u>\$ 121,942</u>	<u>\$ 1,078,017</u>
	2020				
	Income	Contributions	Direct benefit to donors	Fundraising costs	Net income
Bar-be-cue	\$ 62,838	\$ 565,811	\$ 68,991	\$ 62,889	\$ 496,769
Black tie gala	35	1,025	1,375	2,158	(2,473)
Other events	-	-	-	494	(494)
	<u>\$ 62,873</u>	<u>\$ 566,836</u>	<u>\$ 70,366</u>	<u>\$ 65,541</u>	<u>\$ 493,802</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. The tenant has the option to not renew the lease with 60 day notice in writing. Rental payments in effect as of December 31, 2021 are \$2,154 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 \$25,344 and \$24,607 for the years ended December 31, 2021 and 2020, respectively. There were no rents receivable as of December 31, 2021 and 2020.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 8 - Leased facilities (continued)

As of December 31, 2021, the terms of the lease for the communication facility include future minimum rental income as follows:

Years ending December 31,	
2022	\$ 26,088
2023	<u>17,715</u>
Future lease income	<u>\$ 43,803</u>

The Shea Center also has an agreement from 2016 to rent office space on a month-to-month basis to a tenant for \$1,400 per month. Rent received under this agreement totaled \$16,800 and \$12,600 in the years ended December 31, 2021 and 2020, respectively.

The Shea Center may rent portions of its facilities under short-term agreements for select events. There were no short-term rental agreements for the years ended December 31, 2021 and 2020.

Note 9 - Related party transactions

During the years ended December 31, 2021 and 2020, The Shea Center received donations and other fundraising support from Board members totaling \$1,051,958 and \$1,279,059, respectively. Balances of pledges receivable from Board members as of December 31, 2021 and 2020 totaled \$85,108 and \$84,454, respectively.

During the years ended December 31, 2021 and 2020, The Shea Center received donations from employees totaling \$18,303 and \$16,623, respectively. Pledges receivable of \$0 and \$100, were due from employees as of December 31, 2021 and 2020, respectively.

Additionally, during the years ended December 31, 2021 and 2020, The Shea Center received legal services from a law firm. A Shea Center board member is a partner with the law firm. Legal services received in 2021 and 2020 totaled \$4,181 and \$18,431, respectively.

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 has an employer matching program that includes certain limits and qualifications and calls for the Organization to match 50% of employee contributions up to 4% of their salary. In 2020, the Company match was increased to 60% of employee contributions up to 5% of their salary. The program was suspended in May 2020 due to the pandemic. The program was reinstated in July 2021, retroactive to January 2021. The total amount of employee contributions that were matched by The Shea Center in 2021 and 2020 was \$53,554 and \$17,675, respectively. Retirement plan fees for the years ended December 31, 2021 and 2020 totaled \$4,707 and 4,094, respectively.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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.

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, 2021 and 2020.

	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, 2021</u>				
Investments:				
Mutual funds	\$ 2,341,095	\$ 2,341,095	\$ -	\$ -
Member units in privately held LLC	36,000	-	-	36,000
Pledges receivable	2,132,192	-	-	2,132,192
Total	<u>\$ 4,509,287</u>	<u>\$ 2,341,095</u>	<u>\$ -</u>	<u>\$ 2,168,192</u>

The following table sets forth by level within the fair value hierarchy the Organization's assets at fair value as of December 31, 2021 and 2020.

<u>December 31, 2020</u>				
Investments:				
Mutual funds	\$ 2,027,791	\$ 2,027,791	\$ -	\$ -
Member units in privately held LLC	36,000	-	-	36,000
Pledges receivable	2,221,629	-	-	2,221,629
Total	<u>\$ 4,285,420</u>	<u>\$ 2,027,791</u>	<u>\$ -</u>	<u>\$ 2,257,629</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 11 - Fair value measurements (continued)

The following represents the changes in fair value measurements using significant unobservable inputs (Level 3):

	<u>Pledges receivable</u>	<u>Investments</u>
Balance, December 31, 2019	\$ 2,579,566	\$ 36,000
Total gains or losses (realized and unrealized)	3,569	-
Purchases	-	-
Sales	-	-
Issuances	1,133,217	-
Settlements	<u>(1,494,723)</u>	<u>-</u>
Balance, December 31, 2020	\$ 2,221,629	\$ 36,000
Total gains or losses (realized and unrealized)	(672)	-
Purchases	-	-
Sales	-	-
Issuances	1,189,946	-
Settlements	<u>(1,278,711)</u>	<u>-</u>
Balance, December 31, 2021	<u>\$ 2,132,192</u>	<u>\$ 36,000</u>

Unrealized gains (losses) are included in contribution income in the revenue section of the statement of activities. Included in this amount are \$422 and \$1,749 of unrealized losses on Level 3 assets held at December 31, 2021 and 2020, 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.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 12 - Endowment funds (continued)

The composition of endowment funds by type of fund as of December 31, 2021 is as follows:

	Without donor restrictions	With donor restrictions		Total with donor restrictions	Total funds
		Original gift amount	Accumulated gain (losses) and other		
Donor-restricted funds - Historical Endowment	\$ -	\$ 86,393	\$ 54,296	\$ 140,689	\$ 140,689
Donor-restricted funds - Always Campaign	-	1,232,776	335,919	1,568,695	1,568,695
Board - designated funds	631,711	-	-	-	631,711
	<u>\$ 631,711</u>	<u>\$ 1,319,169</u>	<u>\$ 390,215</u>	<u>\$ 1,709,384</u>	<u>\$ 2,341,095</u>

The composition of endowment funds by type of fund as of December 31, 2020 is as follows:

	Without donor restrictions	With donor restrictions		Total with donor restrictions	Total funds
		Original gift amount	Accumulated gain (losses) and other		
Donor-restricted funds - Historical Endowment	\$ -	\$ 86,393	\$ 26,214	\$ 112,607	\$ 112,607
Donor-restricted funds - Always Campaign	-	1,112,376	223,329	1,335,705	1,335,705
Board - designated funds	579,479	-	-	-	579,479
	<u>\$ 579,479</u>	<u>\$ 1,198,769</u>	<u>\$ 249,543</u>	<u>\$ 1,448,312</u>	<u>\$ 2,027,791</u>

The changes in endowment net assets for the years ended December 31, 2021 and 2020 are as follows:

	Board Designated Endowments		Totals
	Without Donor Restrictions	Endowments With Donor Restrictions	
Endowment funds, December 31, 2019	\$ 515,472	\$ 701,921	\$ 1,217,393
Contributions received	-	564,860	564,860
Investment income	14,548	33,973	48,521
Net change in value	51,922	152,465	204,387
Fund management fees	(2,463)	(4,907)	(7,370)
Endowment funds, December 31, 2020	\$ 579,479	\$ 1,448,312	\$ 2,027,791
Contributions received	-	120,400	120,400
Investment income	9,899	26,640	36,539
Net change in value	45,322	121,922	167,244
Fund management fees	(2,989)	(7,890)	(10,879)
Endowment funds, December 31, 2021	<u>\$ 631,711</u>	<u>\$ 1,709,384</u>	<u>\$ 2,341,095</u>

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 12 - Endowment funds (continued)

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. There were no fund deficiencies as of the years ended December 31, 2021 and 2020.

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, 2021 and 2020 is \$31,141 and \$33,026, respectively.

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. There is also a higher concentration of contributions received in the fourth quarter 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 statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position 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.

J.F. Shea Therapeutic Riding Center, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 14 – Liquidity and availability of financial assets (continued)

	2021	2020
Cash and cash equivalents, including restricted cash	\$ 3,060,271	\$ 2,352,726
Accounts receivable, net, collected in less than one year	518,925	22,611
Pledges receivable, net, collected in less than one year	2,092,363	191,378
Cash held for long term purposes	493,919	468,854
Investments	2,377,095	2,063,791
Total financial assets, excluding non-current receivables	8,542,573	5,099,360
Donor-imposed or Board-designated restrictions:		
Funds held for others	(31,141)	(33,026)
Cash restricted by donors for specific purposes	(128,315)	(157,468)
Pledges receivable restricted by donors for specific purposes	(2,068,808)	(166,058)
Board-designated reserves for future requirements	(365,604)	(311,386)
Board-designated investments held as quasi-endowments	(631,711)	(579,479)
Investment – held for long-term purposes	(36,000)	(36,000)
Endowments with donor restrictions	(1,709,384)	(1,448,312)
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 3,571,610</u>	<u>\$ 2,367,631</u>

Note 15 – Subsequent events

Gifts

In January 2022 The Shea Center received a \$1,000,000 permanently restricted endowment gift from a donor-advised fund of an estate to establish a military-families fund to help cover a portion of the expenses for the Company's military programs.

Additionally, in February 2022 the Organization received \$2,000,000 in funds to fulfill a 2019 pledge to the *Always: The Shea Center Endowment Campaign*.

Legal matter

In early February 2022 The Shea Center was notified a lawsuit has been filed in Orange County Superior Court and the Company is named as defendants in a claim regarding alleged easement rights encroachment on land owned by The Shea Center. The Organization disputes the claim and denies all alleged violations of any easement rights.

The Company believes it has meritorious defenses to the lawsuit and will vigorously defend against them. In view of the inherent difficulty of predicting the outcome of litigation, particularly where there are many claimants and the claimants seek indeterminate damages, the Company is unable to predict the outcome of these matters, and at this time cannot reasonably estimate the possible loss or range of loss with respect to the pending litigation. The Company has not established any reserves for any potential liability relating to the lawsuit.