

**LOVELANE SPECIAL NEEDS
HORSEBACK RIDING PROGRAM, INC.**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lovelane Special Needs Horseback Riding Program, Inc:

We have audited the accompanying financial statements of Lovelane Special Needs Horseback Riding Program, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities and changes in net assets, 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 of 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 auditors consider 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 Lovelane Special Needs Horseback Riding Program, Inc. as of June 30, 2019 and 2018, and the changes in its net assets, its cash flows, and its functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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October 30, 2019

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 591,485	\$ 947,943
Accounts receivable, net of allowance for doubtful accounts of \$5,500 in 2019 and 2018	34,874	15,689
Contributions receivable	25,000	25,000
Short-term investments	6,086,318	5,080,089
Prepaid expenses and other current assets	42,450	91,956
Total current assets	6,780,127	6,160,677
Property and equipment:		
Land	880,452	880,452
Land improvements	1,088,500	1,088,500
Barn	1,358,975	1,358,975
House	673,207	673,207
Furniture and equipment	150,466	114,735
Horses	49,300	54,300
	4,200,900	4,170,169
Less accumulated depreciation	(1,861,390)	(1,721,096)
Net property and equipment	2,339,510	2,449,073
Contributions receivable - long-term	-	25,000
Long-term investments	387,260	387,260
Total assets	\$ 9,506,897	\$ 9,022,010
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 26,263	\$ 29,646
Accrued expenses	144,419	140,933
Deferred income	47,639	330,199
Total current liabilities	218,321	500,778
Net assets:		
Without donor restrictions:		
Board designated - Stanley Sabin Sustainability Fund	5,174,699	4,492,931
Board designated - Susan McDaniel Tuition Assistance Fund	904,920	589,048
Undesignated	2,791,697	2,992,493
Total net assets without donor restrictions	8,871,316	8,074,472
With donor restrictions	417,260	446,760
Total net assets	9,288,576	8,521,232
Total liabilities and net assets	\$ 9,506,897	\$ 9,022,010

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue:			
Contributions and grants	\$ 249,833	\$ 135,000	\$ 384,833
Program service revenue	549,028	-	549,028
Special events revenue	1,088,905	-	1,088,905
In-kind donations	53,345	-	53,345
Rental income	52,125	-	52,125
Interest and dividends	130,300	-	130,300
Net realized and unrealized gains on investments	147,939	-	147,939
Loss on disposal of fixed assets	(2,214)	-	(2,214)
Net assets released from restriction	164,500	(164,500)	-
Total public support and revenue	<u>2,433,761</u>	<u>(29,500)</u>	<u>2,404,261</u>
Expenses:			
Program services	909,129	-	909,129
Fundraising	547,579	-	547,579
Support services	180,209	-	180,209
Total expenses	<u>1,636,917</u>	<u>-</u>	<u>1,636,917</u>
Changes in net assets	796,844	(29,500)	767,344
Net assets, beginning of year	<u>8,074,472</u>	<u>446,760</u>	<u>8,521,232</u>
Net assets, end of year	<u>\$ 8,871,316</u>	<u>\$ 417,260</u>	<u>\$ 9,288,576</u>

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenue:			
Contributions and grants	\$ 260,826	\$ 144,500	\$ 405,326
Program service revenue	546,883	-	546,883
Special events revenue	38,802	-	38,802
In-kind donations	19,071	-	19,071
Rental income	51,000	-	51,000
Interest and dividends	123,090	-	123,090
Net realized and unrealized gains on investments	228,325	-	228,325
Loss on disposal of fixed assets	(4,577)	-	(4,577)
Net assets released from restriction	190,331	(190,331)	-
Total public support and revenue	<u>1,453,751</u>	<u>(45,831)</u>	<u>1,407,920</u>
Expenses:			
Program services	873,269	-	873,269
Fundraising	187,663	-	187,663
Support services	188,569	-	188,569
Total expenses	<u>1,249,501</u>	<u>-</u>	<u>1,249,501</u>
Changes in net assets	204,250	(45,831)	158,419
Net assets, beginning of year	<u>7,870,222</u>	<u>492,591</u>	<u>8,362,813</u>
Net assets, end of year	<u>\$ 8,074,472</u>	<u>\$ 446,760</u>	<u>\$ 8,521,232</u>

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 767,344	\$ 158,419
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of fixed assets	2,214	4,577
Contributed stock	-	(13,317)
Depreciation and amortization	146,246	144,444
Net unrealized and realized (gains) losses on investments	(147,939)	(228,325)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(19,185)	28,817
Decrease in contributions receivable	25,000	51,131
Decrease (increase) in prepaid expenses and other current assets	47,840	(69,895)
Decrease in accounts payable	(3,383)	(2,018)
Increase (decrease) in accrued expenses	3,486	(14,276)
(Decrease) increase in deferred income	(282,560)	250,106
Net cash provided by operating activities	539,063	309,663
 Cash flows from investing activities:		
Purchases of investments	(858,290)	(119,336)
Proceeds from sale of property and equipment	2,000	2,000
Purchases of property and equipment	(39,231)	(87,935)
Net cash used in investing activities	(895,521)	(205,271)
 Net (decrease) increase in cash and cash equivalents	(356,458)	104,392
 Cash and cash equivalents at beginning of year	947,943	843,551
 Cash and cash equivalents at end of year	\$ 591,485	\$ 947,943
 Supplemental cash flow data:		
Contributed goods and services:		
Barn supplies and equipment	\$ 4,354	\$ 18,795
Special events	46,764	10,886
Other	2,227	276
	\$ 53,345	\$ 29,957

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2019

Expenses	Program Services	Fundraising	Support Services	Total Expenses
Salaries	\$ 425,296	\$ 97,211	\$ 85,059	\$ 607,566
Payroll taxes and benefits	90,312	20,643	18,062	129,017
Retirement plan expenses	6,403	1,463	1,280	9,146
Total personnel expenses	522,011	119,317	104,401	745,729
Tuition assistance	61,211	-	-	61,211
Facility maintenance, supplies and utilities	32,351	6,996	6,996	46,343
Horse care	94,016	-	-	94,016
Special events	-	394,890	-	394,890
Office expense	32,757	13,235	7,612	53,604
Travel	423	-	-	423
Insurance	42,591	4,873	4,381	51,845
Professional fees	10,999	8,018	25,259	44,276
Total expenses before depreciation	796,359	547,329	148,649	1,492,337
Depreciation and amortization	112,770	250	31,560	144,580
Total functional expenses	<u>\$ 909,129</u>	<u>\$ 547,579</u>	<u>\$ 180,209</u>	<u>\$ 1,636,917</u>

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2018

Expenses	Program Services	Fundraising	Support Services	Total Expenses
Salaries	\$ 397,481	\$ 116,302	\$ 94,172	\$ 607,955
Payroll taxes and benefits	96,579	28,259	22,882	147,720
Retirement plan expenses	5,878	1,720	1,393	8,991
Total personnel expenses	499,938	146,281	118,447	764,666
Tuition assistance	55,805	-	-	55,805
Facility maintenance, supplies and utilities	25,856	5,004	7,992	38,852
Horse care	94,716	-	-	94,716
Special events	-	9,923	-	9,923
Office expense	38,149	15,799	683	54,631
Bad debt expense	-	250	-	250
Travel	436	55	100	591
Insurance	35,660	1,978	7,518	45,156
Professional fees	9,433	7,267	23,767	40,467
Total expenses before depreciation	759,993	186,557	158,507	1,105,057
Depreciation and amortization	113,276	1,106	30,062	144,444
Total functional expenses	\$ 873,269	\$ 187,663	\$ 188,569	\$ 1,249,501

The accompanying notes are an integral part of these financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization

Lovelane Special Needs Horseback Riding Program, Inc. (the “Organization”) is a nonprofit organization founded in 1992 to provide high-quality horseback riding therapy to children and young adults with special needs; focusing on occupational, physical, speech, and/or emotional therapeutic gains. Lovelane receives tuition income, grants and donations to subsidize tuition and other operating expenses. The Organization also holds fundraising events throughout the year. The Organization services children and young adults from the surrounding communities. Consequently, the Organization’s revenue and support are affected by economic fluctuations in the area.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below to enhance the usefulness of the financial statements.

(b) Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to restrictions imposed by donors or certain grantors. Net assets without donor restrictions include board-designated funds. Board-designated funds are designated for specific purposes as determined by the Organization’s directors.

Net assets with donor restrictions - Net assets subject to restrictions imposed by donors or certain grantors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(c) Cash and Cash Equivalents

Short-term investments that are highly liquid, readily convertible into cash and have original maturities of three months or less when purchased are considered to be cash equivalents.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(d) Accounts Receivable

Accounts receivable for lessons are recorded when billed. Receivables are stated at the amount management expects to collect from outstanding balances based on prior experience and includes a provision for doubtful accounts at June 30, 2019 and 2018 of \$5,500.

(e) Contributions Receivable

Included in contributions receivable are promises to give. Unconditional promises to give are recognized as revenue when earned. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value.

Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(f) Investments

The Organization reports investments at fair value. Fair value for investments classified as equity and debt securities that are listed or traded on a security exchange is determined using quoted closing market prices on the primary exchange where the security is traded on the last trading date of the Organization's fiscal year. The fair value of investments in alternative investments is determined based on the Organization's assessment of fair value information provided by the fund manager of the alternative investment vehicle. The portion of investments associated with donor restrictions that are perpetual in nature are classified as long-term investments. All other investments are classified as short-term investments.

(g) Property and Equipment

Property and equipment are stated at purchase cost or at fair market value at the date of donation. Amounts over \$2,000 with useful lives greater than one year are capitalized. Property and equipment are depreciated on a straight-line basis over the following estimated useful lives.

	<u>Years</u>
Land improvements	15 to 25
House and barn	25 to 27.5
Furniture and equipment	3 to 7
Horses	7

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(h) Deferred Income

Deferred income represents billings or receivables for which the Organization's revenue recognition criteria have not been met.

(i) Revenue Recognition and Reporting

The Organization reports gifts of cash and other assets as restricted support if they are accepted with stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 restriction. Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization received contributed services in the form of volunteer labor and donations of goods, services and assets. Contributed services are recognized if they are performed by individuals using specialized skills.

Net realized and unrealized gains and losses and investment income are reported as changes in net assets without donor restrictions in the statement of activities, unless their use has been restricted by donors or state law. When a restriction exists, investment income and net unrealized and realized gains are allocated based on the total balance of pooled investments applicable to the respective asset totals. There were no restrictions on investment income and net realized and unrealized gains at June 30, 2019 and 2018. The Organization's policy is to sell donated securities when received.

(j) Income Taxes

The Organization is exempt from federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Organization has adopted the guidance issued by the Financial Accounting Standards Board (FASB) relating to accounting for uncertain income tax positions, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return and could result in additional disclosure. Management believes there are no material uncertain tax positions that require disclosure in the accompanying financial statements.

The Organization files tax returns in the U.S. federal jurisdiction as well as in Massachusetts. The Organization has a policy to record interest and penalties (if any) related to income tax expense matters in income tax expense.

(k) Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments, accounts receivable, and contributions receivable. The Organization places its temporary cash investments with creditworthy, high quality financial institutions.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

The Organization maintains its cash balances and certificates of deposit in two savings banks located in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures interest-bearing deposits up to \$250,000 per bank. Amounts over this amount are insured by the Depositors Insurance Fund (DIF).

No donors represented 10% or more of the Organization's public support for the years ended June 30, 2019 and 2018.

Donors that accounted for 10% or more of the Organization's contributions receivable at June 30, 2019 and 2018 are as follows:

Donor A	2019	2018
	100%	100%

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(m) Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expenditure classification. Expenses that are common to several programs or supporting services are allocated on a reasonable basis that is consistently applied. Salaries and employee benefits are allocated based on estimated time and effort. Payroll taxes are allocated as a percentage of salaries. Facility expenses, depreciation, office expenses, and insurance are all allocated using estimated percentages, based on personnel usage.

(n) Adoption of New Accounting Guidance

During the year ended June 30, 2019, the Organization implemented ASU 2016-14, *Financial Statements of Not-for-Profit Entities*. Accordingly, net assets are classified into two categories: without donor restrictions and with donor restrictions. The ASU requires additional disclosures about the liquidity and availability of funds and requires the reclassification of investment expenses, which are netted against investment income and include both external and direct internal investment expenses. ASU 2016-14 also requires the inclusion of a statement of functional expenses as part of the basic financial statements for all not-for-profit entities.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(o) Reclassifications

Certain reclassifications have been made to conform prior year balances to the current year presentation.

(3) Liquidity and Availability

The Organization regularly monitors the availability of resources to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing horseback riding therapy to children and young adults with special needs, as well as general and administrative and fundraising costs.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following as of June 30, 2019:

Cash and cash equivalents	\$ 591,485
Accounts receivable	34,874
Contributions receivable	25,000
Prepaid expenses and other current assets	42,450
	<u>\$ 693,809</u>

In addition to financial assets available to meet general expenditures within one year of the balance sheet, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenses.

The Organization's governing board has designated the short-term investments as an operating reserve and may make an annual appropriation of up to 4.5% of the fair value of the investments for general expenditures in the next 12-month period. No funds were appropriated for the 2020 fiscal year as of June 30, 2019. The board may, at its discretion, approve appropriations from investments during the year, in order to meet the Organization's operating needs.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(4) Contributions Receivable

Included in contributions receivable are the following unconditional promises to give as of June 30:

	2019	2018
Restricted for future periods	\$ 25,000	\$ 50,000
Unconditional promises to give	\$ 25,000	\$ 50,000
Amounts due in:		
Less than one year	\$ 25,000	\$ 25,000
One to five years	-	25,000
	\$ 25,000	\$ 50,000

(5) Fair Value Measurements

The Organization follows the guidance of FASB ASC 820 *Fair Value Measurements and Disclosures* for its financial assets and liabilities. ASC 820 refines the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants. The standard requires the use of market-based information over entity-specific information, when available, and establishes a three-level hierarchy for measuring fair value based on whether the inputs to a fair value measurement are considered to be observable or unobservable in an active marketplace.

The hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 – Quoted market prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds: The fair value of money market funds is based on quoted net asset values at the end of the business day. Due to the short-term nature of the investments, the fair value is expected to approximate cost.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

Mutual Funds: The fair value of mutual funds is based on quoted net assets values of the shares held at the end of the business day.

Corporate Bonds and Common Stock: The fair value of corporate bonds and common stock are based on the closing prices reported in the active market in which the individual securities are traded.

Alternative Investments: The fair value of alternative investments are determined based on the Organization's assessment of fair value information provided by the fund manager of the alternative investment vehicle.

The following tables summarize the Organization's financial assets measured at fair value on a recurring basis in accordance with FSB ASC 820-10 as of June 30, 2019 and 2018:

<u>June 30, 2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
Money market funds	\$ 103,925	\$ -	\$ 103,925	\$ -
Investments:				
Money market funds	107,098	-	107,098	-
Common stock	13,811	13,811	-	-
Exchange traded mutual funds	3,627,421	3,627,421	-	-
Institutional mutual funds	2,049,721	-	2,049,721	-
Corporate bonds	153,502	153,502	-	-
Government securities	227,814	227,814	-	-
Alternative investments	294,211	-	-	294,211
Subtotal: Investments	<u>6,473,578</u>	<u>4,022,548</u>	<u>2,156,819</u>	<u>294,211</u>
 Total financial assets at fair value	 <u>\$6,577,503</u>	 <u>\$4,022,548</u>	 <u>\$2,260,744</u>	 <u>\$ 294,211</u>

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

<u>June 30, 2018</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
Money market funds	\$ 204,219	\$ -	\$ 204,219	\$ -
Investments:				
Money market funds	24,817	-	24,817	-
Common stock	14,619	14,619	-	-
Exchange traded mutual funds	2,978,350	2,978,350	-	-
Institutional mutual funds	1,783,443	-	1,783,443	-
Corporate bonds	303,997	303,997	-	-
Government securities	75,731	75,731	-	-
Alternative investments	286,392	-	-	286,392
Subtotal: Investments	<u>5,467,349</u>	<u>3,372,697</u>	<u>1,808,260</u>	<u>286,392</u>
 Total financial assets at fair value	 <u>\$5,671,568</u>	 <u>\$3,372,697</u>	 <u>\$2,012,479</u>	 <u>\$ 286,392</u>

Alternative investments include investments in limited partnerships for which values have been estimated by the general partner in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that have been classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 286,392	\$ 262,484
Realized and unrealized gains, net	<u>7,819</u>	<u>23,908</u>
 Balance at end of year	 <u>\$ 294,211</u>	 <u>\$ 286,392</u>

(6) Line of Credit

In December 2016, the Organization obtained a revolving line of credit with a bank with a maximum borrowing amount of \$150,000. The loan has an interest rate of prime plus 0.5%, which resulted in an effective rate of 5.75% and 5.50% at June 30, 2019 and 2018, respectively. The loan is secured by substantially all assets of the Organization. There is no specified expiration date on the loan. The balance outstanding on the loan was \$0 at June 30, 2019 and 2018. There was no interest incurred on the loan during the year ended June 30, 2019.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Purpose restrictions:		
Other purpose restrictions	\$ -	\$ 9,500
Horse purchases	5,000	-
	5,000	9,500
Time restrictions:		
Net contributions receivable	25,000	50,000
	25,000	50,000
Endowments:		
Stanley Sabin Sustainability Fund	387,260	387,260
	387,260	387,260
Total net assets with donor restrictions	\$ 417,260	\$ 446,760

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or the passage of time or other events specified by the donors were as follows for the years ended June 30:

	2019	2018
Time restrictions	\$ 110,000	\$ 131,131
Other purpose restrictions	34,500	30,000
Tuition assistance	20,000	25,000
Horse care and purchases	-	4,200
	\$ 164,500	\$ 190,331

(8) Endowment

The Organization's endowment consists of one fund, The Stanley Sabin Sustainability Fund, which was established to provide the Organization with income to offset operating expenses. A small part of the fund includes funds that were accepted with permanent restrictions, which are classified as net assets with donor restrictions in the financial statements. The remainder of the fund is board-designated and categorized as net assets without donor restrictions in the financial statements.

LOVELANE SPECIAL NEEDS HORSEBACK RIDING PROGRAM, INC.

Notes to Financial Statements

June 30, 2019 and 2018

Interpretation of Relevant Law

The State of Massachusetts enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with permanent donor restrictions (a) the original value of gifts donated to the endowment that were accepted as permanently restricted, (b) the original value of subsequent gifts to the fund that were accepted as permanently restricted and (c) any accumulations described in clauses (a) and (b) made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the restricted funds that is not classified in net assets with permanent donor restrictions is classified as net assets with temporary donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate restricted funds: (1) the duration and preservation of the fund, (2) the purposes of the restricted fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The following represents the net asset classes of the Stanley Sabin Sustainability Fund as of and for the years ended June 30, 2019 and 2018:

June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,174,699	\$ -	\$ 5,174,699
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	387,260	387,260
Total endowment net assets	\$ 5,174,699	\$ 387,260	\$ 5,561,959

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June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,492,931	\$ -	\$ 4,492,931
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	387,260	387,260
Total endowment net assets	<u>\$ 4,492,931</u>	<u>\$ 387,260</u>	<u>\$ 4,880,191</u>

The following represents the changes in the Stanley Sabin Sustainability Fund as of and for the years ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2017	\$ 4,182,908	\$ 387,260	\$ 4,570,168
Additions to board designated funds	24,989	-	24,989
Investment return:			
Interest and dividends	107,382	-	107,382
Net realized and unrealized gains	<u>177,652</u>	<u>-</u>	<u>177,652</u>
June 30, 2018	4,492,931	387,260	4,880,191
Additions to board designated funds	481,519	-	481,519
Investment return:			
Interest and dividends	93,406	-	93,406
Net realized and unrealized gains	<u>106,843</u>	<u>-</u>	<u>106,843</u>
June 30, 2019	<u>\$ 5,174,699</u>	<u>\$ 387,260</u>	<u>\$ 5,561,959</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for The Stanley Sabin Sustainability Fund assets that attempt to provide a predictable stream of funding to programs supported by the fund while seeking to maintain the purchasing power of those assets over the long-term. Under this policy, as approved by the Board of Directors, the fund's assets are invested in a manner that is intended to achieve a return objective through diversification of asset classes. The Organization expects its funds, over time, to provide an average rate of return of 6% before adjusting for inflation. Actual returns in any given year may vary from this amount.

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Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation of 58% equities, 25% fixed income, 12% alternative strategies, and 5% real estate to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's plan is to draw up to 4.5% per year for operating purposes if necessary.

(9) Susan McDaniel Tuition Assistance Fund

The Susan McDaniel Tuition Assistance Fund was established as a separate money market or investment account with the available funds maintained at a level to provide for the maximum allowable tuition assistance awards to selected Lovelane students who demonstrate a financial need for tuition assistance. Susan McDaniel tuition assistance may be awarded to one or more students each semester and during the summer sessions as deemed appropriate by the staff responsible for making tuition assistance decisions. The amount available for scholarships is up to \$15,000 per year, based on a review of the past year's investment performance by the Finance Committee. Additional funds are added to the Susan McDaniel Tuition Assistance Fund from gifts made 'in honor of' or 'in memory of' Susan McDaniel. Annual tuition assistance will continue to be awarded until the balance of the fund is expended or until such time as it is determined by the Finance Committee that the balance of the funds are to be expended and the Fund terminated. Restricted contributions are classified as net assets with donor restrictions until they are used to make tuition assistance awards. During the years ended June 30, 2019 and 2018, the Board of Directors designated \$330,872 and \$90,383 to this fund, respectively. These board designated net assets are classified as net assets without donor restrictions on the statement of financial position.

(10) Related Party Transactions

The Organization has tenancy at will lease agreements with employees of the Organization who live in the residence located at 40A Baker Bridge Road, Lincoln, Massachusetts. During the years ended June 30, 2019 and 2018, the Organization collected \$8,925 and \$9,000 in rental income and utility reimbursement under these agreements.

The Organization has an accrued liability of \$100,000 related to an employment agreement with its Founding Director, which is included in accrued expenses on the balance sheet. In July 2019, this agreement was amended and restated. As a result of the amendment, the Organization's total liability will be \$225,000, payable in three equal annual installments of \$75,000 beginning in January 2020.

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(11) Leases

In March 2016, the Organization entered into a sublease agreement with an unrelated party for a portion of its facilities that commenced on July 1, 2016. Under the terms of the lease, monthly payments of \$3,500 are required through the expiration date of the lease in June 2018. Rental income recognized as a result of the lease totaled \$42,000 during the year ended June 30, 2018.

In June 2017, the Organization entered into a sublease agreement with the same unrelated party for a portion of its facilities that commenced on July 1, 2018. Under the terms of the lease, monthly payments of \$3,600 were required through the expiration date of the lease in June 2019. Rental income recognized as a result of the lease totaled \$43,200 during the year ended June 30, 2019. In February 2019, this lease was extended for one additional year through June 2020 at the same monthly payment rate.

The future minimum rental income under the sublease agreement is as follows for the years ending:

June 30, 2020	\$ 43,200
Thereafter	<u>-</u>
	<u>\$ 43,200</u>

(12) Donated Goods and Services

The Organization receives donated goods for various fundraising events, as well as horses and other supplies and services. These in-kind donations have been recorded in the statements of activities as both support and expense at their fair estimated value of \$53,345 and \$29,957 for the years ended June 30, 2019 and 2018, respectively.

The Organization receives donated services from a variety of unpaid volunteers assisting the Organization in their operations. No amounts have been recognized in the accompanying statements of activities because they generally do not involve specialized skills.

(13) Retirement Plans

During the year ended June 30, 2010, the Organization established a nonqualified deferred compensation plan under Section 457(b) of the Internal Revenue Code for the benefit of its Executive Director. Tax deferred contributions to the Plan are limited to the amount allowed by the Internal Revenue Code. There were no contributions for the years ended June 30, 2019 and 2018, respectively.

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The Organization has a retirement plan under Section 401(k) of the Internal Revenue Code for the benefit of all employees that are at least 21 years of age and are active employees on the last day of the plan year. Effective July 1, 2013, the Organization began matching 100% of employee contributions up to 2% of the individual's salary, up to a maximum of \$1,500 per employee. Employer contributions were \$9,046 and \$8,891 for the years ended June 30, 2019 and 2018, respectively. Employees are vested in employer matching contributions over a 6-year graded scale. Plan loans are not allowed. Employee tax deferred contributions are limited to the amount allowed by the Internal Revenue Code.

(14) Subsequent Events

The Organization has evaluated all subsequent events through October 30, 2019, the date the financial statements were available to be issued. The Organization has determined there were no material events or transactions that require adjustment or disclosure to the financial statements.