

Flying Horse Farms

Financial Statements
December 31, 2019 and 2018
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Flying Horse Farms
Mt. Gilead, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Flying Horse Farms (an Ohio not-for-profit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Flying Horse Farms as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
February 24, 2020

Flying Horse Farms
Statements of Financial Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 2,279,647	1,854,029
Current portion of contributions receivable, net of allowance of \$45,000 and \$54,000, respectively	518,804	353,618
Investments	30,740	-
Other receivables	-	47
Prepaid expenses	<u>66,406</u>	<u>69,978</u>
	<u>2,895,597</u>	<u>2,277,672</u>
Property and equipment:		
Construction in progress	61,413	373,658
Buildings	14,068,130	13,631,335
Land improvements	754,053	727,741
Vehicles	86,042	94,818
Equipment	<u>934,272</u>	<u>916,954</u>
	15,903,910	15,744,506
Less accumulated depreciation	<u>4,187,424</u>	<u>3,715,917</u>
	<u>11,716,486</u>	<u>12,028,589</u>
Other assets:		
Contributions receivable, less current portion	<u>1,199,187</u>	<u>1,164,664</u>
	<u>\$ 15,811,270</u>	<u>15,470,925</u>

See accompanying notes to the financial statements.

Flying Horse Farms
 Statements of Financial Position (Continued)
 December 31, 2019 and 2018

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable	\$ 13,183	29,167
Accrued expenses	76,101	111,349
Current portion of long-term debt	162,500	162,500
Current portion of capital lease obligation	<u>9,651</u>	<u>6,447</u>
	<u>261,435</u>	<u>309,463</u>
Other liabilities:		
Long-term debt, less current portion	311,458	487,500
Capital lease obligation	<u>11,354</u>	<u>14,266</u>
	<u>322,812</u>	<u>501,766</u>
Net assets:		
Without donor restrictions	14,108,391	13,844,160
With donor restrictions	<u>1,118,632</u>	<u>815,536</u>
	<u>15,227,023</u>	<u>14,659,696</u>
	<u>\$ 15,811,270</u>	<u>15,470,925</u>

See accompanying notes to the financial statements.

Flying Horse Farms
Statements of Activities
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
Revenue:		
Contributions	\$ 3,563,446	5,426,941
Net assets released from restriction	729,027	2,117,086
Other	<u>10,777</u>	<u>25,752</u>
	<u>4,303,250</u>	<u>7,569,779</u>
Expenses:		
Program services	2,606,289	2,597,220
Management and general	463,245	1,076,493
Fundraising	<u>965,914</u>	<u>918,575</u>
	<u>4,035,448</u>	<u>4,592,288</u>
Other expense -		
Loss on disposal of assets	<u>(3,571)</u>	<u>(6,757)</u>
Change in net assets without donor restrictions	<u>264,231</u>	<u>2,970,734</u>
Change in net assets with donor restrictions:		
Contributions	1,032,123	769,726
Net assets released from restriction	<u>(729,027)</u>	<u>(2,117,086)</u>
Change in net assets with donor restrictions	<u>303,096</u>	<u>(1,347,360)</u>
Change in net assets	567,327	1,623,374
Net assets - beginning of year	<u>14,659,696</u>	<u>13,036,322</u>
Net assets - end of year	\$ <u>15,227,023</u>	<u>14,659,696</u>

See accompanying notes to the financial statements.

Flying Horse Farms
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,187,978	191,443	560,129	1,939,550
Payroll taxes	85,574	14,537	43,550	143,661
Employee benefits	137,961	15,269	56,035	209,265
Advertising	-	-	58,047	58,047
Special event supplies	-	-	130,069	130,069
Contract labor	4,223	-	-	4,223
Insurance	69,460	4,037	-	73,497
Travel and entertainment	4,838	3,211	5,127	13,176
Professional fees	10,391	132,665	57,861	200,917
Printing and postage	-	2,108	8,477	10,585
Bank and service fees	-	7,049	7,899	14,948
Supplies	408,896	48,653	16,459	474,008
Rent	66,872	34,314	-	101,186
Meetings	2,480	3,727	1,557	7,764
Interest	13,117	-	-	13,117
Utilities	112,916	3,009	3,647	119,572
Bad debt	-	-	15,410	15,410
Depreciation	500,992	-	-	500,992
Miscellaneous	<u>591</u>	<u>3,223</u>	<u>1,647</u>	<u>5,461</u>
	\$ <u>2,606,289</u>	<u>463,245</u>	<u>965,914</u>	<u>4,035,448</u>

See accompanying notes to the financial statements.

Flying Horse Farms
Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,036,617	555,559	428,418	2,020,594
Payroll taxes	74,777	42,321	34,717	151,815
Employee benefits	122,307	82,784	81,974	287,065
Advertising	33,456	353	11,243	45,052
Special event supplies	-	-	255,154	255,154
Contract labor	2,353	-	-	2,353
Insurance	60,183	4,037	-	64,220
Travel and entertainment	2,397	8,685	4,811	15,893
Professional fees	114,996	46,281	40	161,317
Printing and postage	4,801	2,861	3,307	10,969
Bank and service fees		10,176	8,324	18,500
Supplies	442,513	51,926	12,709	507,148
Rent	36,265	2,048	-	38,313
Meetings	4,531	8,032	1,644	14,207
Interest	71,260	611	1,399	73,270
Utilities	105,087	2,203	2,311	109,601
Bad debt	-	-	62,500	62,500
Amortization	-	254,013	-	254,013
Depreciation	483,750	4,150	9,495	497,395
Miscellaneous	<u>1,927</u>	<u>453</u>	<u>529</u>	<u>2,909</u>
	\$ <u>2,597,220</u>	<u>1,076,493</u>	<u>918,575</u>	<u>4,592,288</u>

See accompanying notes to the financial statements.

Flying Horse Farms
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 567,327	1,623,374
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	500,992	751,408
Bad debt	15,410	62,500
Loss on disposal of assets	3,571	6,757
In-kind contributions	(30,740)	(144,071)
Change in discount for future pledges	(7,300)	(7,300)
Forgiveness of debt	-	(1,046,989)
Effects of changes in operating assets and liabilities:		
Contributions receivable	(207,819)	471,037
Other receivable	47	1,319
Prepaid expenses	3,572	5,043
Accounts payable	(15,984)	19,495
Accrued expenses	<u>(35,248)</u>	<u>(11,076)</u>
Net cash flows from operating activities	<u>793,828</u>	<u>1,731,497</u>
 Cash flows from investing activities:		
Proceeds from sale of assets	5,050	-
Purchase of property and equipment	(188,574)	(164,923)
Proceeds from sale of investments	<u>-</u>	<u>109,595</u>
Net cash flows from investing activities	<u>(183,524)</u>	<u>(55,328)</u>
 Cash flows from financing activities:		
Payments on notes payable	(176,042)	(1,110,643)
Repayments of capital lease	<u>(8,644)</u>	<u>(5,544)</u>
Net cash flows from financing activities	<u>(184,686)</u>	<u>(1,116,187)</u>
 Change in cash and cash equivalents	425,618	559,982
 Cash and cash equivalents - beginning of year	<u>1,854,029</u>	<u>1,294,047</u>
 Cash and cash equivalents - end of year	\$ <u><u>2,279,647</u></u>	<u><u>1,854,029</u></u>

See accompanying notes to the financial statements.

Flying Horse Farms
 Statements of Cash Flows (continued)
 Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash paid during the year for interest	\$ <u>19,019</u>	<u>54,395</u>
In-kind donations received and expensed in the same period	\$ <u>531,160</u>	<u>573,902</u>
Noncash investing and financing activities:		
In-kind contributions:		
Investments	\$ 30,740	102,967
Property and equipment	-	41,104
Bond debt forgiveness	<u>-</u>	<u>1,046,989</u>
	\$ <u>30,740</u>	<u>1,191,060</u>
Equipment acquired through leases	\$ <u>8,936</u>	<u>5,775</u>
Change in discount for future pledges	\$ <u>(8,396)</u>	<u>7,300</u>

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Flying Horse Farms are set forth to facilitate the understanding of data presented in the financial statements:

Nature of activities

Flying Horse Farms (the Organization) is a non-profit organization that provides magical, transformative camp experiences for children with serious illnesses and their families. Located on approximately 200 acres just outside of Mt. Gilead, Ohio, the Organization hosts hundreds of children and families each year—free of charge. The children who benefit from the camp have illnesses including arthritis, asthma, cancer, bleeding disorders, gastrointestinal disease, heart disease, kidney disease, and craniofacial anomalies.

Flying Horse Farms is a member of the SeriousFun Children's Network, the world's largest family of camps for children with serious illnesses. Founded in 1988 by Paul Newman, the Network has collectively served more than 605,000 children and families from five continents and 50 countries. Flying Horse Farms has also received ACA-Accredited Camp status after submitting to a thorough review by the American Camp Association.

Adoption of new accounting standard

During 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction and whether a contribution is considered conditional. The presentation of the Organization's financial statements has not been changed as a result of the standard.

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and governing board.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will likely be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with initial maturity of three months or less to be cash equivalents.

Receivables

Unconditional contributions receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or in-kind expenses depending on the form of the benefits received. Contributions receivable consist primarily of amounts due from individuals. The receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense in the statements of activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

Investments

The Organization carries investments in marketable equity securities with readily determinable fair values at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property and equipment

Property and equipment are recorded at cost, or fair value, if donated. Assets acquired through capital lease agreements are capitalized at their fair market value as of the date of lease inception. Depreciation on property and equipment is provided using the straight-line method over the estimated useful life, which is five years for vehicles, three to fifteen years for equipment, and thirty-nine years for land improvements and for buildings. Additions and betterments in excess of \$500 are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are reported as increases in net assets without donor restrictions unless specifically restricted by a donor. Amounts that are received that are designated for specific purposes are reported as increases in net assets with donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are met. Unconditional promises to give, due in subsequent years, are reported at present value, net of estimated uncollectible pledges.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a donor restriction expires, the net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and are reported in the statements of activities as net assets released from restriction. Donor restricted contributions that expire in the reporting period in which the support is given are reported as increases in net assets without donor restrictions.

Donated assets

Donated marketable securities and other non-cash donations are recorded as contributions at their fair values at the date of donation. The Organization does not imply a time restriction on gifts of long-lived assets.

Donated services

Donated services are recognized as contributions in the accompanying statements of activities, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. During the years ended December 31, 2019 and 2018, the estimated value of donated services that met the recognition criteria was \$191,310 and \$218,350, respectively for health care services, accounting, legal, and information technology services. The services are included in the accompanying statements of functional expenses as salaries or professional fees. Values of contributed services originate from the volunteer hours provided by each professional multiplied by the market rates for those services.

Functional expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses are allocated based on estimates of time and effort and costs incurred by specific programs.

Advertising expense

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, donations to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A) and the Organization has been classified as an organization that is not a private foundation under Section 509(a)(2).

Use of estimates

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

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through February 24, 2020 the date on which the financial statements were available to be issued.

2. CONTRIBUTIONS RECEIVABLE:

Unconditional contributions receivable at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Unconditional contributions receivable	\$ 1,813,152	1,614,047
Less:		
Allowance for uncollectible pledges	45,000	54,000
Discounts to net present value	<u>50,161</u>	<u>41,765</u>
Net present value of contributions receivable	1,717,991	1,518,282
Less: current portion	<u>518,804</u>	<u>353,618</u>
	\$ <u>1,199,187</u>	<u>1,164,664</u>
	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 575,652	413,047
Receivable in one to five years	1,197,500	1,148,500
Receivable in more than five years	<u>40,000</u>	<u>52,500</u>
Total unconditional contributions receivable	\$ <u>1,813,152</u>	<u>1,614,047</u>

The discount rate was 3.25% at December 31, 2019 and 2018.

3. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common Stock:			
Technology	\$ 29,365	-	-
Consumer Products	<u>1,375</u>	<u>-</u>	<u>-</u>
	<u>\$ 30,740</u>	<u>-</u>	<u>-</u>

Common stocks are valued at the closing price reported on the active market on which the individual securities are traded.

4. LONG-TERM DEBT:

Long-term debt at December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Note payable to SeriousFun Children's Network Inc. bearing interest at 2% payable in monthly installments of \$13,542 through December 2022	\$ 473,958	650,000
Less: current portion	<u>(162,500)</u>	<u>(162,500)</u>
	<u>\$ 311,458</u>	<u>487,500</u>

Principal payments over the next three years are as follows:

<u>Years Ended December 31,</u>	
2020	\$ 162,500
2021	162,500
2022	<u>148,958</u>
	<u>\$ 473,958</u>

5. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Future camp sessions	\$ 701,187	537,164
Happy Time workshop	11,496	80,804
2020 Campfire	252,000	-
2019 Campfire	-	176,500
Facility improvements	125,797	20,265
Other	<u>28,152</u>	<u>803</u>
	<u>\$ 1,118,632</u>	<u>815,536</u>

6. OPERATING LEASES:

The Organization has two non-cancelable operating leases for office equipment expiring at various dates through 2019. Future minimum lease obligations subsequent to the year ended December 31, 2019 were \$2,805.

7. CAPITAL LEASE:

The Organization has leased various equipment under capital leases that will expire in September 2023. The economic substance of the leases is that the Organization is financing the acquisition of assets through the leases and, accordingly, this amount is recorded in the Organization's assets and liabilities.

As of year-end, the equipment and related depreciation recorded under the capital leases that were included in the accompanying statements of financial position is as follows:

Equipment	\$ 32,425	32,425
Less: accumulated depreciation	<u>(18,322)</u>	<u>(11,837)</u>
	<u>\$ 14,103</u>	<u>20,588</u>

The following is a schedule of future minimum payments required under the lease together with the present value as of December 31, 2019:

<u>Years Ended December 31,</u>	
2020	\$ 10,210
2021	8,751
2022	2,074
2023	<u>870</u>
 Total minimum payments	 21,905
Less: amount representing interest ranging from 2% to 5%	 <u>(900)</u>
	 21,005
Less: current portion	<u>(9,651)</u>
	 \$ <u><u>11,354</u></u>

Amortization of assets held under the capital lease is included in depreciation expense.

8. RETIREMENT PLAN:

The Organization offers a retirement plan and provides for a discretionary matching contribution. The Organization made no discretionary matching contributions for the years ended December 31, 2019 or December 31, 2018.

9. CONCENTRATION OF CREDIT RISK AND CONTRIBUTIONS RECEIVABLE:

The Organization maintains its cash balances in one financial institution located in Columbus, Ohio. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of December 31, 2019 and 2018, the Organization had uninsured cash balances of \$2,026,305 and \$1,572,874, respectively.

The Organization received unconditional promises to give from Board members, which at December 31, 2019 and 2018 represented approximately 52% and 59% of the contributions receivable, respectively.

10. RELATED PARTY TRANSACTIONS:

The Organization received a contribution of a lease from a Board member for the property where the camp is located. The lease will expire when the land ownership is transferred to the Camp.

The Organization has recorded contributions receivable from Board members and employees totaling \$934,650 and \$953,081 as of December 31, 2019 and 2018, respectively. Included in contributions receivable is a contribution of land from a Board member valued at \$900,000 as of December 31, 2019 and 2018.

11. LIQUIDITY:

The Organization is substantially supported by contributions, some of which come with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following table presents the financial assets available to meet cash needs for general expenditures within one year:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 2,279,647	1,854,029
Current receivables, net	<u>518,804</u>	<u>353,618</u>
Financial assets available at year-end	2,798,451	2,207,647
Less those unavailable for general expenditures within one year due to:		
Restrictions by donor for time or purpose	<u>(1,118,632)</u>	<u>(815,536)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,679,819</u>	<u>1,392,111</u>

