

**Hearts & Horses, Inc.**

(a nonprofit Colorado corporation)

Loveland, Colorado

**Financial Statements**

June 30, 2020

# Hearts & Horses, Inc.

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## **Independent Accountant's Review Report**

To the Board of Directors  
Hearts & Horses, Inc.  
Loveland, Colorado

We have reviewed the accompanying financial statements of Hearts & Horses, Inc. (a nonprofit Colorado corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*Brock and Company, CPAs, P.C.*

Certified Public Accountants

Fort Collins, Colorado  
October 2, 2020

# Hearts & Horses, Inc.

## Statement of Financial Position

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June 30, 2020

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### ASSETS

#### Current Assets

Cash and cash equivalents	\$	871,284
Investments		188,907
Accounts receivable		5,684
Inventory		3,678
Total current assets		<u>1,069,553</u>

#### Property and Equipment

Land		185,154
Buildings		1,665,692
Horses		67,900
Furniture and fixtures		39,532
Vehicles		69,907
Equipment		1,939
Construction in progress		<u>1,906,226</u>
		3,936,350
Less accumulated depreciation		<u>(516,156)</u>
Net property and equipment		<u>3,420,194</u>

#### Other Assets

Beneficial interest in assets held by The Community Foundation of Northern Colorado		70,339
Investment, water shares		73,389
Total other assets		<u>143,728</u>
Total assets	\$	<u>4,633,475</u>

The accompanying Notes are an integral  
part of these financial statements

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# Hearts & Horses, Inc.

## Statement of Financial Position (continued)

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June 30, 2020

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### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$	4,050
Accrued expenses		44,989
Deferred revenue		12,500
Note payable, current maturities		49,223
Total current liabilities		<u>110,762</u>

#### Long-Term Liability

Note payable, net of current maturities		62,677
Total liabilities		<u>173,439</u>

#### Net Assets

Without donor restrictions		
Undesignated		3,582,392
Board-designated, endowment		70,339
Board-designated, reserves		595,000
With donor restrictions		212,305
Total net assets		<u>4,460,036</u>

Total liabilities and net assets	\$	<u><u>4,633,475</u></u>
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The accompanying Notes are an integral  
part of these financial statements

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# Hearts & Horses, Inc.

## Statements of Activities and Changes in Net Assets

Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support, Revenue, and Gains</b>			
Contributions and grants	\$ 518,480	\$ 27,131	\$ 545,611
In-kind contributions	81,283	-	81,283
Program fees	437,613	-	437,613
Special event income	432,542	-	432,542
Special event expenses	(74,563)	-	(74,563)
Gift shop sales, net	11,714	-	11,714
Interest and dividends	5,986	6,741	12,727
Realized gain on investments	631	-	631
Net assets released from restrictions	22,259	(22,259)	-
Total revenue and support	<u>1,435,945</u>	<u>11,613</u>	<u>1,447,558</u>
<b>Functional Expenses and Losses</b>			
<b>Functional Expenses</b>			
Program Services	1,140,965	-	1,140,965
Supporting Services			
General and administrative	113,775	-	113,775
Fundraising	57,747	-	57,747
Total functional expenses	<u>1,312,487</u>	<u>-</u>	<u>1,312,487</u>
<b>Losses</b>			
Unrealized loss on investments	1,220	4,799	6,019
Loss on sale of assets	4,993	-	4,993
Realized loss on investments	-	693	693
Total losses	<u>6,213</u>	<u>5,492</u>	<u>11,705</u>
Total functional expenses and losses	<u>1,318,700</u>	<u>5,492</u>	<u>1,324,192</u>
<b>Change in Net Assets</b>	117,245	6,121	123,366
<b>Net Assets, Beginning of Year</b>	<u>4,130,486</u>	<u>206,184</u>	<u>4,336,670</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,247,731</u>	<u>\$ 212,305</u>	<u>\$ 4,460,036</u>

The accompanying Notes are an integral  
part of these financial statements

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# Hearts & Horses, Inc.

## Statement of Functional Expenses

Year ended June 30, 2020

	Program Services					Supporting Services			Total Expenses
	Changing Leads	Therapeutic Riding	Veterans	Therapy Services	Other	Total Programs	General and Administrative	Fundraising	
Salaries	\$ 196,495	\$ 154,389	\$ 51,463	\$ 14,035	\$ 51,463	\$ 467,845	\$ 76,025	\$ 40,937	\$ 584,807
Payroll taxes and payroll expenses	17,160	13,483	4,494	1,226	4,494	40,857	6,639	3,575	51,071
Total personnel	213,655	167,872	55,957	15,261	55,957	508,702	82,664	44,512	635,878
Community support and scholarships	148,445	108,658	46,075	460	5,183	308,821	-	-	308,821
Equine and stable expenses	32,441	25,490	8,497	2,317	8,497	77,242	-	-	77,242
Repairs and maintenance	24,171	18,992	6,331	1,727	6,331	57,552	7,848	-	65,400
Insurance	15,234	11,970	3,990	1,088	3,990	36,272	4,946	-	41,218
Utilities	10,353	8,135	2,712	740	2,712	24,652	3,361	-	28,013
Programs and workshops	10,483	8,237	2,746	749	2,746	24,961	-	-	24,961
Professional fees	4,522	3,553	1,184	323	1,184	10,766	1,794	5,383	17,943
Dues and subscriptions	3,967	3,117	1,039	283	1,039	9,445	1,288	-	10,733
IT services	2,332	1,833	611	167	611	5,554	926	2,778	9,258
Bank and investment fees	1,073	843	281	77	281	2,555	365	3,163	6,083
Office expenses	1,467	1,152	384	105	384	3,492	1,459	261	5,212
Volunteer expenses	983	773	258	70	258	2,342	-	1,261	3,603
Vehicle and equipment expenses	1,241	977	326	89	326	2,959	-	-	2,959
Advertising	921	724	241	66	241	2,193	274	274	2,741
Miscellaneous	627	493	164	45	164	1,493	398	100	1,991
Postage	102	82	27	7	27	245	36	15	296
Total expenses before depreciation	472,017	362,901	130,823	23,574	89,931	1,079,246	105,359	57,747	1,242,352
Depreciation	25,922	20,367	6,789	1,852	6,789	61,719	8,416	-	70,135
Total expenses:	<u>\$ 497,939</u>	<u>\$ 383,268</u>	<u>\$ 137,612</u>	<u>\$ 25,426</u>	<u>\$ 96,720</u>	<u>\$ 1,140,965</u>	<u>\$ 113,775</u>	<u>\$ 57,747</u>	<u>\$ 1,312,487</u>

The accompanying Notes are an integral part of these financial statements

# Hearts & Horses, Inc.

## Statement of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

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Year ended June 30, 2019

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### Cash Flows From Operating Activities

Change in net assets	\$ 123,366
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	70,135
In-kind contributions of construction costs and other assets	(46,503)
Realized loss on investments	62
Unrealized loss on investments	6,019
Reinvested dividends	1,798
Loss on sale of property and equipment	4,993
Increase (decrease) from changes in assets and liabilities	
Accounts receivable	3,151
Pledge receivable	204,100
Inventory	(1,968)
Accounts payable	(248,626)
Accrued expenses	14,428
Deferred revenue	(7,900)
Net cash provided by operating activities	<u>123,055</u>

### Cash Flows From Investing Activities

Proceeds from sale of investments	13,591
Purchases of investments	(23,049)
Proceeds from sale of property and equipment	9,700
Purchases of property and equipment	(69,573)
Transfers to board designated endowment	(60,500)
Net cash used by investing activities	<u>(129,831)</u>

### Cash Flows From Financing Activities

Borrowings on long term debt	<u>111,900</u>
Net cash provided by financing activities	<u>111,900</u>

**Net Increase in Cash and Cash Equivalents** 105,124

**Cash and Cash Equivalents, Beginning of Year** 766,160

**Cash and Cash Equivalents, End of Year** \$ 871,284

The accompanying Notes are an integral  
part of these financial statements

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# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies

*Nature of Activities.* Hearts & Horses, Inc. ("the Organization") is a nonprofit organization that was incorporated in Colorado in 1997. Its mission is to promote the physical, cognitive, emotional, and social well-being of people with special needs through equine assisted activities and therapies.

Hearts & Horses provides a variety of therapeutic and educational programs designed to inspire emotional, cognitive, social, and physical growth through interactive and engaging activities with horses, which include:

*Changing Leads* - Our largest program at Hearts & Horses, the Changing Leads Program is designed to help youth-at-risk find friendship, develop trust and form a deep connection through partnering with a horse. The program focuses on teaching transferable skills to enhance personal, school, family, and community relationships through Equine Facilitated Learning.

*Therapeutic/Adaptive Riding* - Taught by specially trained instructors certified by the Professional Association of Therapeutic Horsemanship International (PATH Intl), therapeutic/adaptive riding lessons develop horseback riding skills in individuals with disabilities. The goal of adaptive riding lessons is for each client to reach his/her highest level of independence in mounted and non-mounted equine activities.

*Hearts & Horses for Heroes (Veterans) Program* - Hearts & Horses for Heroes is designed specifically for our service personnel and Veterans of every era and helps participants heal and grow by restoring the wisdom of their mind, body and spirit through their interactions with horses, each other, and the natural world. This innovative program improves coping skills and confidence, decreases isolation and builds trust, self-control and social skills through Equine Facilitated Learning.

*Therapy Services* - A direct medical treatment that may incorporate equine movement, non-mounted activities and the equestrian environment, Hippotherapy (HPOT) refers to how occupational therapy, physical therapy, and speech language pathology professionals use evidence-based practice and clinical reasoning in the purposeful manipulation of equine movement to engage sensory, neuromotor and cognitive systems to achieve functional outcomes. In conjunction with the affordances of the equine environment and other treatment strategies, hippotherapy is part of a patient's integrated plan of care. Hippotherapy is derived from the Greek word "hippos," meaning horse.

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Basis of Accounting.* The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies (continued)

*Future Accounting Pronouncement.* During May 2020, the Financial Accounting Standards Board issued ASU No. 2020-05, which allowed for the delay of implementing ASU No. 2014-09 (Topic 606) - *Revenue from Contracts With Customers*. Topic 606 provides guidance for revenue recognition that superseded previous guidance. The pronouncement was originally required to be implemented July 1, 2019. Under ASU 2014-09, revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods and services. Management has not determined the effects of the adoption of the pronouncement. The new pronouncement requires substantially expanded disclosures for contract assets and liabilities.

*Net Asset Classification.* The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. The Organization complies with established standards for external reporting by not-for-profit organizations, which requires that resources be classified for reporting purposes into two net asset categories according to externally (donor) imposed restrictions. The two net asset categories are as follows:

*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 the board of directors.

*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 be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

*Functional Allocation of Expenses.* Direct expenses have been allocated to the applicable program for which the expenses were incurred. Indirect expenses have been allocated among program, general and administrative, and fundraising activities based on estimated relative usage of resources attributable to these activities.

*Cash and Cash Equivalents.* The Organization considers all highly liquid investments, including demand deposits and money market funds, with a maturity of three months or less, to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

*Investments.* The Organization's investments are stated at fair value. 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. The Organization's management determines the valuation policies utilizing information provided by the investment advisors and custodians.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies (continued)

Water shares are reported at cost. While there are generally transactions in the shares most years, the shares are not considered to be actively traded. Accordingly, management does not believe the fair value is readily determinable.

Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

*Fair Value Measurements.* The Organization reports using fair value measurements, which requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

*Mutual Funds.* Valued at the quoted net asset value of shares/units held by the Organization at year end.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies (continued)

*Beneficial Interest in Assets Held by The Community Foundation of Northern Colorado.* Valued at the net asset value ("NAV") of units held by the Organization at year end. The NAV, as provided by The Community Foundation of Northern Colorado (the Foundation), is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the Foundation less its liabilities. This practical expedient is not used when it is determined to be probable that the Foundation will sell the investment for an amount different than the reported NAV.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

*Promises to Give.* Unconditional promises to give (pledges) are recognized as revenues in the period received. Pledges receivable are recorded at the amount the Organization expects to receive, allowing for estimated uncollectible pledges. The allowance for uncollectible pledges is estimated based on management's review of specific pledges outstanding. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

*Accounts Receivable.* Accounts receivable consist primarily of amounts due from participants of the programs. The allowance method is used to determine the uncollectible amounts. The allowance is based upon historical experience, assessment of the current economic environment, and analysis of subsequent events. As of June 30, 2020, no allowance was provided as management believed all accounts to be substantially collectible.

*Merchandise Inventory.* Inventory consists of small items such as clothing and water bottles, and is stated at the lower of cost (first-in, first-out method) or market.

*Property and Equipment.* It is the Organization's policy to capitalize property and equipment at cost for purchases over \$500, while repair and maintenance items are charged to expense. Donations of property and equipment are capitalized at their estimated fair value at the date of gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation expense for the year ended June 30, 2019 was \$70,135.

*Construction in Progress and Subsequent Event.* Costs associated with the construction of a new building have been capitalized as construction in progress. As of June 30, 2020, the building was not yet placed in service because the Certificate of Occupancy had not been issued. Construction was substantially complete at June 30, 2020 and the Certificate of Occupancy was issued in August 2020.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies (continued)

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. In general, asset lives are as follows:

	<u>Life in Years</u>
Buildings	7 - 30
Horses	3 - 15
Furniture and fixtures	3 - 10
Vehicles	4 - 7
Equipment	3 - 7

*Impairment of Long-lived Assets.* In the event that facts and circumstances indicate that property and equipment, or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value would be necessary. No impairment losses were recorded during the years ended June 30, 2020.

*Program Fee Revenue.* Payments received for client services that are reciprocal in nature are deferred and recognized as services are rendered.

*Contributions.* Contributions are recognized when the promise to give is received. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions reclassified to net assets without donor restrictions. Contributions and grants that are restricted by the donor or grantor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

*Contributed Services.* Contributed services are recognized if the services received satisfy the criteria for recognition. The contributions of services are recognized if services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Total donated professional services for the year ended June 30, 2020 consisted of veterinary services totaling \$3,719.

*Income Taxes.* Hearts & Horses, Inc. is a nonprofit corporation exempt from income taxes as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes has been made.

The Organization utilizes the provisions of ASC 740, pertaining to accounting for uncertainty in income taxes. The pronouncement requires the use of a more-likely-than-not recognition criteria before and separate from the measurement of a tax position. An entity shall initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. With respect to the Organization, this would primarily relate to the determination of unrelated business taxable income and to the maintenance of its tax exempt status.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### Note 1 - Nature of Activities and Summary of Significant Accounting Policies (continued)

Management has evaluated the adopted policies and procedures that have been implemented to provide assurance that income is properly characterized and activities that jeopardize its tax exempt status are within limits established under existing tax code and regulations. Management has determined the effects of uncertain tax positions are not material to the Organization for recognition or disclosure in the accompanying financial statements and, accordingly, no income tax liability has been recorded for uncertain income tax positions in the accompanying financial statements.

Income taxes for the years ended June 30, 2017 through the current year are open for examination. Penalties and interest may be assessed on income taxes that are delinquent.

*Advertising Costs.* The Organization expenses all advertising costs as incurred. Advertising expenses were approximately \$2,741 for the year ended June 30, 2020.

*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 October 2, 2020, the date at which the financial statements were available for release.

### Note 2 - Availability and Liquidity

The following represents the Organization's financial assets for the years ended June 30, 2020:

	Amount
Cash and cash equivalents	\$ 871,284
Investments	259,246
Accounts receivable	5,684
Total financial assets	<u>1,136,214</u>
Less amounts not available to be used within one year	
Board-designated endowments	70,339
Board-designated reserves	595,000
Net assets with donor restrictions	<u>212,305</u>
Financial assets available to meet general expenditures, current	<u>\$ 258,570</u>

The Organization's financial policy is to maintain financial assets in reserves to meet three months of operating expenses, as defined in the policy. If necessary, the Board of Directors must approve any recommendation and withdrawal requests from the reserves. The reserves set by the Board at June 30, 2020 would meet approximately six months of operating expenses.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

### Note 3 - Fair Value Measurements and Investments

The following table sets forth by level, within fair value hierarchy, the Organization's investments, at fair value, as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Large cap	\$ 56,288	\$ -	\$ -	\$ 56,288
International	56,762	-	-	56,762
Intermediate bonds	38,475	-	-	38,475
Emerging markets	19,129	-	-	19,129
Short-term bonds	9,537	-	-	9,537
Exchange traded funds	8,716	-	-	8,716
Total mutual funds	<u>\$ 188,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>188,907</u>
Other investments				
Investments measured at net asset value				
Beneficial interest in assets held by The Community Foundation of Northern Colorado				<u>70,339</u>
Total assets valued at fair value				<u>\$ 259,246</u>

*Changes in Fair Value Levels.* The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization has evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2020, there were no significant transfers in or out of fair value levels.

Investment income consisted of the following for the year ended June 30, 2020:

	Amount
Investment interest and dividends	\$ 12,727
Realized gain on investments	693
Unrealized loss on investments	(6,019)
Investment management fees	(1,555)
Net investment income	<u>\$ 5,846</u>

### Note 4 - Line of Credit, Note Payable, and Subsequent Event

The Organization had a \$50,000 line of credit with the Bank of Colorado with no outstanding borrowings at June 30, 2020. The agreement matured in August 2020 and was renewed to extend the line to \$250,000. The agreement bears interest at a rate of 3.25% subject to prime to change based on the *Wall Street Journal* Prime Rate, and matures in August 2022.

# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

### Note 4 - Line of Credit, Note Payable, and Subsequent Event (continued)

The Organization has a long-term note with the United States Small Business Administration under the Paycheck Protection Program (PPP). The PPP loan program provides for forgiveness of the loan if the Organization expends the proceeds for qualified purposes and complies with other requirements. The Organization has expended all funds as of June 30, 2020 and expects to meet the criteria and will apply for loan forgiveness. The loan, as structured at June 30, 2020, is due in monthly installments of \$6,298, including interest of 1.00% beginning in November 2020. The loan is unsecured and matures in April 2022. The outstanding balance at June 30, 2020 is \$111,900.

Scheduled maturities of the long-term note payable is as follows at June 30, 2020:

Year	Amount
2021	\$ 49,223
2022	62,677
	<u>\$ 111,900</u>

### Note 5 - Net Assets With Donor Restrictions

The following summarizes the changes in net assets with donor restrictions:

	July 1, 2019 Balance	Receipts	Releases	June 30, 2020 Balance
UBER Scholarship Fund	\$ 191,103	\$ 1,249	\$ -	\$ 192,352
Horse fund	15,081	27,131	(22,259)	19,953
	<u>\$ 206,184</u>	<u>\$ 28,380</u>	<u>\$ (22,259)</u>	<u>\$ 212,305</u>

### Note 6 - Board Designated Net Assets and Endowments

The following summarizes the changes in endowment funds for the years ended June 30, 2020:

	Amount
Endowment net assets, July 1, 2019	<u>\$ 9,972</u>
Transfer of undesignated net assets	60,500
Interest and dividends	1,018
Net realized and unrealized loss	(589)
Investment advisory fees	(562)
Change in endowment net assets	<u>60,367</u>
Endowment net assets, June 30, 2020	<u>\$ 70,339</u>



# Hearts & Horses, Inc.

## Notes to Financial Statements

June 30, 2020

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### **Note 6 - Board Designated Net Assets and Endowments (continued)**

In September 2018, the Organization opened a board-designated endowment fund with the Community Foundation of Northern Colorado. The funds are classified as net assets without donor restrictions. The funds are invested in specified investment pools within the Community Foundation. The endowment is board-designated, and accordingly, spending, including from underwater endowments, is subject to board approval. No expenditures are expected to be approved in the near term, and expenditure policies are being developed for approval by the Board of Directors.

*Reserves.* The Board of Directors has designated \$595,000 of net assets without donor restrictions as reserves at June 30, 2020. These funds are restricted designations imposed internally and are recorded as net assets without donor restrictions.

### **Note 7 - Concentrations**

The Organization routinely maintains cash balances in excess of federally insured limits.

### **Note 8 - Uncertainty**

During 2020, a health care pandemic has occurred in the United States and internationally. In response to the crisis, the federal, state, and municipal governments have enacted various policies to curtail group gatherings until the risk has diminished. Certain parts of the Organization's operations, including fundraising, have been modified or were significantly curtailed to comply with the requirements and recommendations of governing agencies. The federal government has implemented various relief measures, including the Cares Act of 2020. The Organization plans to participate in the benefits available under the newly-enacted legislation. No reliable estimate of the potential future financial impacts of this uncertainty on the Organization can be made at this time.