

**THOROUGHBRED RETIREMENT  
FOUNDATION, INC.  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2016**

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2016**

TABLE OF CONTENTS

	Page
List of Board of Directors	
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-16
Supplemental Schedules	
Summary Schedule of Revenue and Expense by Location	18-19
Schedule of Program Services by Location	20-21
Schedule of General and Administrative Expenses by Location	22-23
Schedule of Fundraising Expenses by Location	24-25

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**

**Board of Directors**

**2016**

Leonard Hale, Chairman and President

Leslie Priggen

Robert Hutt

Suzie O'Cain

Dr. Jerry Bilinski, DVM

Carl Domino

Patrick Mackay

Dr. Nat Messer, DVM

Richard Migliore

Dr. William Moyer, DVM

Pamela Blatz-Murff

September 19, 2017

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Thoroughbred Retirement Foundation, Inc.  
Saratoga Springs, NY

We have audited the accompanying financial statements of the Thoroughbred Retirement Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Thoroughbred Retirement Foundation, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenue and expense by location, program services by location, general and administrative expenses by location, and fundraising expenses by location on pages 18-25 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sheheen, Hancock & Godwin, LLP  
Camden, South Carolina

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2016**

**ASSETS**

Cash and Cash Equivalents	\$ 307,373
Restricted Cash	613,071
Contribution Receivables	97,548
Prepaid Expenses	2,222
Short-Term Investments	65,144
Long-Term Investments	8,658,441
Fixed Assets, Net of Depreciation	<u>1,786,550</u>
<b>Total Assets</b>	<b><u>\$ 11,530,350</u></b>

**LIABILITIES AND NET ASSETS**

Accounts Payable and Accrued Expenses	\$ 619,142
Due to Affiliate Organization	20,981
Note Payable - NBSC	1,450,000
Note Payable - Working Capital	<u>400,000</u>
<b>Total Liabilities</b>	<b><u>2,490,123</u></b>
 Net Assets	
Unrestricted	161,000
Temporarily Restricted	1,879,227
Permanently Restricted	<u>7,000,000</u>
 <b>Total Net Assets</b>	<b><u>9,040,227</u></b>
 <b>Total Liabilities and Net Assets</b>	<b><u>\$ 11,530,350</u></b>

The notes to the financial statements are an integral part of these statements.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>				
Contributions	\$ 2,521,816	\$ 55,100	\$ -	\$ 2,576,916
In-Kind Contributions	1,703,766	-	-	1,703,766
Grants	226,520	-	-	226,520
Special Events				
Revenues	326,827	-	-	326,827
Less: Expenses	(107,848)	-	-	(107,848)
Interest Income	411	6,841	-	7,252
Dividend Income	-	172,695	-	172,695
Net Realized and Unrealized Gain (Loss) on Long-Term Investments	(640)	677,412	-	676,772
Net Assets Released from Restrictions Expiration of Time Restriction	<u>215,240</u>	<u>(215,240)</u>	<u>-</u>	<u>-</u>
 Total Support and Revenue	 <u>4,886,093</u>	 <u>696,808</u>	 <u>-</u>	 <u>5,582,902</u>
<b>Expenses</b>				
Program Services	2,087,510	-	-	2,087,510
Supporting Services:				
General and Administrative	453,099	-	-	453,099
Fundraising	<u>515,630</u>	<u>-</u>	<u>-</u>	<u>515,630</u>
 Total Expenses	 <u>3,056,239</u>	 <u>-</u>	 <u>-</u>	 <u>3,056,239</u>
 <b>Change In Net Assets</b>	 1,829,855	 696,808	 -	 2,526,663
Net Assets, Beginning of Year	<u>(1,668,855)</u>	<u>1,182,419</u>	<u>7,000,000</u>	<u>6,513,564</u>
Net Assets, End of Year	<u>\$ 161,000</u>	<u>\$ 1,879,227</u>	<u>\$ 7,000,000</u>	<u>\$ 9,040,227</u>

The notes to the financial statements are an integral part of these statements.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2016**

	Program	General and		Direct Benefit	
	<u>Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>to Donors</u>	<u>Total</u>
Accounting	\$ -	97,593	\$ -	\$ -	\$ 97,593
Advertising	14,465	1,572	32,493	-	48,530
Bank Charges	2,244	19,829	1	-	22,074
Blacksmith	73,769	-	-	-	73,769
Board	719,314	-	-	-	719,314
Contract Labor	14,260	2,081	40,953	-	57,294
Depreciation	51,746	-	-	-	51,746
Dues	290	10	250	-	550
Employee Benefits	33,969	8,982	28,644	-	71,595
Equipment Rental	39	7,444	19,328	-	26,811
Feed, Hay and Straw	226,387	-	-	-	226,387
Insurance	45,593	27,834	-	-	73,427
Interest	7,266	126,538	232	-	134,036
Internet	55	1,216	1,022	-	2,293
Non-recurring Legal Fees	4,196	3,161	5,588	-	12,945
Medical Supplies	26,539	-	-	-	26,539
Office Supplies	1,527	3,479	708	-	5,714
Payroll Taxes	32,397	8,153	22,859	-	63,409
Postage and Freight	1,127	4,232	15,375	-	20,734
Printing and Publications	5,937	104	21,137	-	27,178
Promotional	3,766	-	9,261	107,848	120,875
Rent	21,620	11,460	10,710	-	43,790
Repairs and Maintenance	37,199	2,072	394	-	39,665
Salaries and Wages	575,246	103,535	282,300	-	961,081
Supplies	17,922	-	61	-	17,983
Taxes and Licenses	875	3,100	-	-	3,975
Telephone	4,852	5,152	5,602	-	15,606
Transportation	12,994	-	-	-	12,994
Travel	14,680	12,326	17,786	-	44,792
Training	27,276	2,300	-	-	29,576
Utilities	4,012	926	926	-	5,864
Veterinary and Dental Fees	105,948	-	-	-	105,948
<b>Total Expenses</b>	<b>2,087,510</b>	<b>453,099</b>	<b>515,630</b>	<b>107,848</b>	<b>3,164,087</b>
Less Expenses Included with Revenues on the Statement of Activities	-	-	-	(107,848)	(107,848)
<b>Total Expenses Included in the Expense Section of the Statement of Activities</b>	<b><u>\$ 2,087,510</u></b>	<b><u>\$ 453,099</u></b>	<b><u>\$ 515,630</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,056,239</u></b>

The notes to the financial statements are an integral part of these statements.



**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2016**

<b>Cash Flows From Operating Activities</b>	
Change in Net Assets	\$ 2,526,663
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) by Operating Activities:	
Depreciation	51,746
Net Unrealized and Realized Gain on Investments	(676,772)
(Increase) Decrease in:	
Contribution Receivables	147,092
Due From Affiliated Organization	(7,959)
Prepaid Expenses	(550)
Increase (Decrease) in:	
Accounts Payable	(70,923)
Accrued Expenses	<u>40,546</u>
Net Cash Provided by Operating Activities	<u>2,009,843</u>
<b>Cash Flows From Financing Activities</b>	
Purchase of Equipment	(1,517,666)
Payments on Notes Payable	(200,000)
Payments on Working Capital Notes	<u>(100,000)</u>
Net Cash (Used) by Financing Activities	<u>(1,817,666)</u>
<b>Cash Flows From Investing Activities</b>	
(Increase) in Restricted Cash	(385,349)
(Increase) in Short Term Investments	(15,160)
(Increase) in Long Term Investments	<u>188,667</u>
Net Cash (Used) by Investing Activities	<u>(211,842)</u>
<b>Decrease in Cash and Cash Equivalents</b>	(19,665)
Cash and Cash Equivalents, Beginning of Year	<u>327,038</u>
Cash and Cash Equivalents, End of Year	<u>\$ 307,373</u>
<b>Supplemental Cash Flows Information:</b>	
Non-Cash Operating Activities	
In-Kind Contribution	<u>\$ 1,703,766</u>
Interest Paid	<u>\$ 134,036</u>

The notes to the financial statements are an integral part of these statements.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**Note 1. Summary of Significant Accounting Policies**

The Thoroughbred Retirement Foundation, Inc., “the Foundation”, is a non-profit organization established to save retired thoroughbred race horses, with a racing record, from being needlessly slaughtered after the completion of their racing careers. The Foundation provides rehabilitation and retraining, leading to the adoption of some horses for trail riding, competitive showing, and use in riding programs for the handicapped. Certain thoroughbreds are not suitable for adoption; the Foundation places these animals into prison vocational programs operated by the Foundation or boards them at cooperating satellite farms. The Foundation is governed by a Board of Directors and its committees with the operational management responsibility assumed by the Chief Executive Officer and staff. The Foundation is funded by public contributions and special events.

**A. Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities. The accrual basis of accounting recognizes revenues when they are earned, and in the case of grants, when the grant requirements have been met. Expenses are recognized when the liability is incurred. Financial statement presentation follows the recommendation of the Financial Accounting Standards Board of Accounting Standards Codification (ASC). Under the ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**B. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Foundation considers demand deposits and highly liquid investments with original maturities of three (3) months or less to be classified as cash and cash equivalents.

**C. Property and Equipment**

Property and equipment acquired by purchase is carried at cost. Donated property is stated at estimated fair value at the date of donation. The Foundation has a policy of capitalizing all expenditures for property, furniture, fixtures and equipment in excess of \$1,000. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment and Vehicles	3-7 years
Office Furniture and Equipment	5-8 years
Buildings and Leasehold Improvements	10-39 years

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

**D. Income Tax Status**

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. The Foundation's 2013, 2014 and 2015 income tax returns are open for examination.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Management evaluated the Foundation's tax position and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance.

**E. Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**F. In-Kind Donations**

In-kind donations, composed of salaries paid to prison officials charged with managing the Second Chances Program within the prisons, and expenses for foster farms for donated hay, feed and other horse care expenses are recorded at their fair market value at the date of the gift. Donations for labor, supplies and essential services have been recorded. Non-essential voluntary services have not been included in in-kind donations. In-kind donations during the year ended December 31, 2016, consist of the following:

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

Advertising	\$ 3,000
Contract Labor	826
Farrier	750
Feed, Hay and Straw	4,516
Insurance	10,720
Land	1,500,000
Marketing	15,000
Medical Supplies	6,163
Office Supplies	15
Repairs and Maintenance	924
Salaries - Prison Farm Managers	130,773
Special Events	23,823
Supplies	4,689
Travel	392
Utilities	1,575
Veterinary and Dental Fees	<u>600</u>
Total In-Kind Donations	<u><u>\$1,703,766</u></u>

As a non-profit organization, considerable volunteer hours of service have been donated; however, it is impractical to capture and value these in-kind donations. It is at least reasonably possible that additional in-kind donations were not captured by the various locations.

**G. Restricted and Unrestricted Revenue**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose of restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**H. Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

**I. Subsequent Events**

The Foundation evaluated events and transactions subsequent to the balance sheet date through September 19, 2017, which is the date the financial statements were available to be issued.

**J. Donated Assets**

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

**K. Advertising**

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. For the year ended December 31, 2016, advertising costs totaled \$48,530.

**L. Tax-Deferred Annuity Plan**

During the year ended December 31, 2008, the Foundation entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Foundation. The Foundation does not contribute any portion of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish.

**Note 2. Investments**

The Foundation carries investments in marketable securities with readily determinable fair values, all investments in debt securities at their fair values, and all non-marketable debt securities at their fair market value or face value in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income, gains and losses restricted by donors are reported as increases in unrestricted net assets 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, gains and losses are recognized. Investments at December 31, 2016, were comprised of the following:

**THOROUGHbred RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

	Carrying Value
Investments:	
Money Market Funds	\$ 1,443,408
Fixed Income Securities	1,267,115
Exchange Traded Funds	<u>5,947,918</u>
 Total Investments	 <u>\$ 8,658,441</u>

**Note 3. Fair Value Measurements**

Fair value of assets measured on a recurring basis at December 31, 2016, are as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)
Investments:		
Money Market Funds	\$ 1,443,408	\$ 1,443,408
Fixed Income Securities	1,267,115	1,267,115
Exchange Traded Funds	<u>5,947,918</u>	<u>5,947,918</u>
 Total	 <u>\$ 8,658,441</u>	 <u>\$ 8,658,441</u>

FASB ASC 820-10, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Foundation, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

*Level 1 Fair Value Measurements*

The fair value of investments is based on quoted net asset values of the shares held by the Foundation at year-end.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

**Note 4. Restrictions on Net Assets**

Temporarily restricted net assets consist of funds donated through the Pflieger Grant. Funds are released from the Pflieger Grant as expenses are approved and ready for payment. Permanently restricted net assets consist of funds donated through the Paul Mellon Endowment Fund. The restrictions on the Paul Mellon Endowment Fund were memorialized on January 19, 2001, by an agreement between the Executors of the Mellon Estate and Thoroughbred Retirement Foundation, Inc. The Foundation may expend annually an amount not exceeding five percent of the fair market value of the Paul Mellon Endowment Fund, as determined annually, solely for the care and maintenance of retired thoroughbred race horses. Permanently restricted net assets available at December 31, 2016, from the Paul Mellon Endowment Fund are \$7,000,000, the amount of the two (2) original contributions from the Executors of the Estate of Paul Mellon to the Endowment in 2001 (\$5,000,000 and \$2,000,000).

**Note 5. Paul Mellon Endowment**

The Board of Directors of the Foundation has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Foundation, and (7) the Foundation's investment policy.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

*Investment Return Objectives, Risk Parameters and Strategies.* The Foundation has adopted investment and spending policies, approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while also maintaining the purchasing power of those endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective.

The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 6-8% per annum. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* The Foundation is allowed under the terms of the Paul Mellon Endowment Fund to withdraw from the Endowment each year an amount up to 5% of the fair market value of the Endowment's assets at the end of each immediately preceding December 31<sup>st</sup>. The Foundation's current spending policy is to withdraw the full allowable 5% in January of each year. These withdrawn funds must be used for the care and maintenance of retired thoroughbred race horses, with a racing record.

Endowment net asset composition by type of fund as of December 31, 2016, is as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Donor-Restricted Endowment	<u>\$ 1,658,441</u>	<u>\$ 7,000,000</u>	<u>\$ 8,658,441</u>



**THOROUGHbred RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

Changes in endowment net assets as of December 31, 2016, are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Endowment Net Assets, Beginning of Year	\$ 1,169,696	\$ 7,000,000	\$ 8,169,696
Investment Income	150,755	-	150,755
Net Appreciation	705,757	-	705,757
5% Distribution	(503,108)	-	(503,108)
Contribution	150,000	-	150,000
Expenses	<u>(14,659)</u>	<u>-</u>	<u>(14,659)</u>
Endowment Net Assets, End of Year	<u>\$ 1,658,441</u>	<u>\$ 7,000,000</u>	<u>\$ 8,658,441</u>

**Note 6. Fixed Assets**

Land	\$ 1,500,000
Buildings and Leasehold Improvements	1,102,641
Equipment and Vehicles	335,019
Office Furniture and Equipment	62,612
Less: Accumulated Depreciation	<u>(1,213,722)</u>
Total	<u>\$ 1,786,550</u>

Depreciation expense was \$51,746 for the year ended December 31, 2016.

**Note 7. Related Party Transactions**

During the year ended December 31, 2016, the Foundation made payments to the listed related parties.

*Other Related Party Transactions*

SolvIT, LLC, is a company 50% owned by the sister of the Foundation's Vice President and Director of External Affairs, Diana Pikulski and 50% owned by Barbara Hall, an unrelated party. SolvIT provides IT services and herd evaluation for the Foundation. During the year ended December 31, 2016, the Foundation paid \$9,916 to SolvIT.

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

**Note 8. Lease Commitments**

The Foundation renewed its lease agreement for its farm located in Montpelier Station, Virginia. The lease term is for three years beginning on April 1, 2015. The amount of the lease payments for the Black Barn premises is \$36,000 per lease year. The amount of the lease payments for the Lower Sears Barn premises and the Office Space is \$12,000 for the first year, with a 3% per annum increase over the duration of the lease. Actual rental expense to the Foundation for the year ended December 31, 2016, was \$15,002.

The Foundation entered into a lease agreement with the State of Maryland, acting through the Maryland Department of Public Safety and Correctional Services to operate a Prison Farm specializing in the horse care and stable management specific to retired racing thoroughbreds. The term of the lease is for a period of five years, with (3) five year renewal options at the discretion of the State of Maryland.

The Foundation is obligated under a lease agreement for two office spaces in a building, in Saratoga Springs, NY, with monthly rental payments of \$1,300 and \$475, respectively. The lease began on May 1, 2015, and April 15, 2015, and ends on April 30, 2018. Actual rental expense to the Foundation for the year ended December 31, 2016, was \$16,016.

**Note 9. Notes Payable**

The Foundation's obligations under notes payable consist of the following:

NBSC 4.0% note payable, due in one principal installment of \$150,000, and four principal installments of \$200,000, bi-annual installments of interest, through January 2019, secured by the annual Mellon Endowment income stream	<u>\$1,450,000</u>
---	--------------------

Working Capital Notes (the "Notes") in the aggregate amount of \$500,000, due in one principal installment, quarterly installments of interest thru August 2016, at .75 % quarterly or 9% per annum. The Notes were placed at a discount from face amount of five percent, as a commitment fee.	<u>\$ 400,000</u>
---	-------------------

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**  
**(Continued)**

The future scheduled maturities of long-term debt are as follows:

Years Ending	
<u>31-Dec</u>	
2017	\$ 600,000
2018	200,000
2019	<u>1,050,000</u>
Total	<u>\$ 1,850,000</u>

**Note 10. Restricted Cash**

Restricted cash consisted of monies designated for specific chapters or projects.

Florida	\$ 215,000
National*	<u>428,572</u>
Total	<u>\$ 643,572</u>

\*- includes the Pfleger Grant.

**Note 11. Subsequent Event**

The Foundation received, as a gift-in -kind, the Middleburg Training Center in December, 2016, at an estimated value of \$1,500,000, which has been recorded as land as of December 31, 2016. The Foundation subsequently has sold the property on June 1, 2017, in the amount of \$1,485,000.

**Note 12. Concentration of Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a deposit policy for custodial credit risk. As of December 31, 2016, \$40,171 of the Foundation's bank balance of \$854,083, which has a carrying value of \$920,444, was exposed to custodial credit risk since it was not insured and not covered by FDIC limit of \$250,000.

SUPPLEMENTAL SCHEDULES

**THROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SUMMARY SCHEDULE OF REVENUES AND EXPENSES BY LOCATION**  
**For the Year Ended December 31, 2016**

	<u>National</u>	<u>Wallkill New York</u>	<u>Illinois</u>	<u>Blackburn Kentucky</u>	<u>Eastham Farm Virginia</u>	<u>James River Project</u>	<u>Marion Florida</u>
<b>Revenue:</b>							
Unrestricted Revenue	\$ 4,011,576	\$ 61,746	\$ 4,050	\$ 59,580	\$ 2,000	\$ 134,368	\$ 137,062
<b>Total Revenue</b>	<u>4,011,576</u>	<u>61,746</u>	<u>4,050</u>	<u>59,580</u>	<u>2,000</u>	<u>134,368</u>	<u>137,062</u>
<b>Program, Administrative and Fundraising Expenses:</b>							
Program Services	241,223	102,305	70,243	128,589	175,055	140,446	130,349
Management and General	452,480	296	71	17	220	-	-
Fundraising	<u>489,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Program, Administrative and Fundraising Expenses</b>	<u>1,182,957</u>	<u>102,601</u>	<u>70,314</u>	<u>128,606</u>	<u>175,275</u>	<u>140,446</u>	<u>130,349</u>
<b>Excess (Deficiency) of Revenue over Expenses</b>	<u>\$ 2,828,619</u>	<u>\$ (40,855)</u>	<u>\$ (66,264)</u>	<u>\$ (69,026)</u>	<u>\$ (173,275)</u>	<u>\$ (6,078)</u>	<u>\$ 6,713</u>

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SUMMARY SCHEDULE OF REVENUES AND EXPENSES BY LOCATION**  
**For The Year Ended December 31, 2016**  
**(Continued)**

<u>Indiana</u>	<u>Satellite Farms</u>	<u>Montpelier</u>	<u>Wateree SC</u>	<u>New England</u>	<u>Maryland</u>	<u>Totals</u>
\$ 5,525	\$ 145,275	\$ 69,701	\$ 30,012	\$ 71	\$ 9,887	\$ 4,670,853
<u>5,525</u>	<u>145,275</u>	<u>69,701</u>	<u>30,012</u>	<u>71</u>	<u>9,887</u>	<u>4,670,853</u>
83,803	741,155	215,586	27,928	15,230	15,598	2,087,510
-	2	-	7	-	6	453,099
<u>-</u>	<u>7</u>	<u>26,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,630</u>
<u>83,803</u>	<u>741,164</u>	<u>241,955</u>	<u>27,935</u>	<u>15,230</u>	<u>15,604</u>	<u>3,056,239</u>
<u>\$ (78,278)</u>	<u>\$ (595,889)</u>	<u>\$ (172,254)</u>	<u>\$ 2,077</u>	<u>\$ (15,159)</u>	<u>\$ (5,717)</u>	<u>\$ 1,614,614</u>

**THROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF PROGRAM SERVICES BY LOCATION**  
**For the Year Ended December 31, 2016**

	<u>National</u>	<u>Wallkill New York</u>	<u>Illinois</u>	<u>Blackburn Kentucky</u>	<u>Eastham Farm Virginia</u>	<u>James River Project</u>	<u>Marion Florida</u>
<b>Program Services:</b>							
Advertising	\$ 1,202	\$ -	\$ -	\$ -	\$ -	\$ 424	\$ 12,723
Bank Charges	1,671	-	-	-	-	96	-
Blacksmith	105	5,250	730	11,000	10,470	185	8,810
Board	549	-	-	-	85,551	-	-
Contract Labor	9,000	-	-	-	150	4,410	200
Depreciation	5,813	1,382	5,184	-	1,200	7,264	484
Dues	110	-	-	-	-	-	-
Employee Benefits	8,530	-	-	-	8,480	-	-
Equipment Rental	-	-	-	-	-	39	-
Feed, Hay and Straw	406	72,087	3,583	17,962	735	23,007	55,966
Insurance	27,904	-	6,469	-	-	10,720	-
Interest	2,868	531	174	1,005	246	(2)	60
Internet	-	-	-	-	-	55	-
Non-recurring Legal Fees	4,196	-	-	-	-	-	-
Medical Supplies	10,819	25	222	9,128	(52)	-	2,033
Office Supplies	722	59	-	38	-	(95)	-
Payroll Taxes	8,502	1,569	4,329	-	5,058	509	1,663
Postage and Freight	705	-	-	42	-	96	69
Printing and Publications	-	-	16	-	-	4,536	-
Promotional	-	-	-	-	-	-	374
Rent	-	-	-	-	-	-	-
Repairs and Maintenance	(366)	2,529	155	3,280	1,071	2,533	7,002
Salaries and Wages	140,135	12,462	46,211	58,000	52,412	75,388	28,761
Supplies	(842)	1,067	663	4,131	445	2,660	4,682
Taxes and Licenses	90	-	-	-	62	-	400
Telephone	110	921	-	-	-	-	2,072
Transportation	6,935	-	-	80	-	-	-
Travel	9,832	-	-	156	2,109	416	222
Training	-	-	1,099	-	-	5,175	-
Utilities	-	330	-	1,092	-	-	-
Veterinary and Dental Fees	<u>2,227</u>	<u>4,093</u>	<u>1,408</u>	<u>22,675</u>	<u>7,118</u>	<u>3,030</u>	<u>4,828</u>
<b>Total</b>	<b><u>\$ 241,223</u></b>	<b><u>\$ 102,305</u></b>	<b><u>\$ 70,243</u></b>	<b><u>\$ 128,589</u></b>	<b><u>\$ 175,055</u></b>	<b><u>\$ 140,446</u></b>	<b><u>\$ 130,349</u></b>

**THOROUGHbred RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF PROGRAM SERVICES BY LOCATION**  
**For The Year Ended December 31, 2016**  
**(Continued)**

<u>Indiana</u>	<u>Satellite Farms</u>	<u>Montpelier</u>	<u>Wateree SC</u>	<u>New England</u>	<u>Maryland</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 98	\$ -	\$ 18	\$ 14,465
-	90	351	36	-	-	2,244
3,170	23,489	8,460	620	-	1,480	73,769
-	633,214	-	-	-	-	719,314
-	-	500	-	-	-	14,260
-	-	19,405	3,783	514	6,717	51,746
55	-	125	-	-	-	290
-	-	16,959	-	-	-	33,969
-	-	-	-	-	-	39
8,478	14,201	10,439	6,492	11,125	1,906	226,387
-	500	-	-	-	-	45,593
-	2,318	-	6	-	60	7,266
-	-	-	-	-	-	55
-	-	-	-	-	-	4,196
84	2,709	-	-	1,250	321	26,539
-	62	699	-	-	42	1,527
-	-	10,767	-	-	-	32,397
-	19	49	140	-	7	1,127
-	95	-	1,242	-	48	5,937
-	-	3,392	-	-	-	3,766
-	1,500	20,120	-	-	-	21,620
-	864	12,962	5,964	-	1,205	37,199
67,890	-	93,987	-	-	-	575,246
(443)	1,899	1,473	773	-	1,414	17,922
(20)	-	632	-	11	(300)	875
-	-	1,200	549	-	-	4,852
-	5,179	800	-	-	-	12,994
288	1,266	228	163	-	-	14,680
-	16,553	-	4,449	-	-	27,276
1,575	-	1,015	-	-	-	4,012
<u>2,726</u>	<u>37,197</u>	<u>12,023</u>	<u>3,613</u>	<u>2,330</u>	<u>2,680</u>	<u>105,948</u>
<u>\$ 83,803</u>	<u>\$ 741,155</u>	<u>\$ 215,586</u>	<u>\$ 27,928</u>	<u>\$ 15,230</u>	<u>\$ 15,598</u>	<u>\$ 2,087,510</u>



**THROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION**  
**For the Year Ended December 31, 2016**

	<u>National</u>	<u>Walkill</u> <u>New York</u>	<u>Illinois</u>	<u>Blackburn</u> <u>Kentucky</u>	<u>Eastham Farm</u> <u>Virginia</u>	<u>James River</u> <u>Project</u>	<u>Marion</u> <u>Florida</u>
<b>General and Administrative:</b>							
Accounting Fees	\$ 97,593	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	1,572	-	-	-	-	-	-
Bank Charges	19,829	-	-	-	-	-	-
Contract Labor	2,081	-	-	-	-	-	-
Dues	10	-	-	-	-	-	-
Employee Benefits	8,982	-	-	-	-	-	-
Equipment Rental	7,444	-	-	-	-	-	-
Insurance	27,834	-	-	-	-	-	-
Interest	126,139	296	71	17	-	-	-
Internet	1,216	-	-	-	-	-	-
Non-recurring Legal Fees	3,161	-	-	-	-	-	-
Office Supplies	3,479	-	-	-	-	-	-
Payroll Taxes	8,153	-	-	-	-	-	-
Postage and Freight	4,232	-	-	-	-	-	-
Printing and Publications	104	-	-	-	-	-	-
Rent	11,460	-	-	-	-	-	-
Repairs and Maintenance	2,072	-	-	-	-	-	-
Salaries and Wages	103,535	-	-	-	-	-	-
Taxes and Licenses	2,880	-	-	-	220	-	-
Telephone	5,152	-	-	-	-	-	-
Travel	12,326	-	-	-	-	-	-
Training	2,300	-	-	-	-	-	-
Utilities	926	-	-	-	-	-	-
<b>Total</b>	<u>\$ 452,480</u>	<u>\$ 296</u>	<u>\$ 71</u>	<u>\$ 17</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ -</u>

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION**  
**For The Year Ended December 31, 2016**  
**(Continued)**

<u>Indiana</u>	<u>Satellite Farms</u>	<u>Montpelier</u>	<u>Wateree SC</u>	<u>New England</u>	<u>Maryland</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,593
-	-	-	-	-	-	1,572
-	-	-	-	-	-	19,829
-	-	-	-	-	-	2,081
-	-	-	-	-	-	10
-	-	-	-	-	-	8,982
-	-	-	-	-	-	7,444
-	-	-	-	-	-	27,834
-	2	-	7	-	6	126,538
-	-	-	-	-	-	1,216
-	-	-	-	-	-	3,161
-	-	-	-	-	-	3,479
-	-	-	-	-	-	8,153
-	-	-	-	-	-	4,232
-	-	-	-	-	-	104
-	-	-	-	-	-	11,460
-	-	-	-	-	-	2,072
-	-	-	-	-	-	103,535
-	-	-	-	-	-	3,100
-	-	-	-	-	-	5,152
-	-	-	-	-	-	12,326
-	-	-	-	-	-	2,300
-	-	-	-	-	-	926
<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 453,099</u>

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION**  
**For The Year Ended December 31, 2016**  
**(Continued)**

	<u>National</u>	<u>Wallkill New York</u>	<u>Illinois</u>	<u>Blackburn Kentucky</u>	<u>Eastham Farm Virginia</u>	<u>James River Project</u>	<u>Marion Florida</u>
<b>Fundraising:</b>							
Advertising	\$ 32,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank Charges	(6)	-	-	-	-	-	-
Contract Labor	40,953	-	-	-	-	-	-
Dues	250	-	-	-	-	-	-
Employee Benefits	28,644	-	-	-	-	-	-
Equipment Rental	19,328	-	-	-	-	-	-
Interest	232	-	-	-	-	-	-
Internet	1,022	-	-	-	-	-	-
Non-recurring Legal Fees	5,588	-	-	-	-	-	-
Office Supplies	708	-	-	-	-	-	-
Payroll Taxes	20,490	-	-	-	-	-	-
Postage and Freight	15,375	-	-	-	-	-	-
Printing and Publications	21,137	-	-	-	-	-	-
Promotional	9,261	-	-	-	-	-	-
Rent	10,710	-	-	-	-	-	-
Repairs and Maintenance	394	-	-	-	-	-	-
Salaries and Wages	258,300	-	-	-	-	-	-
Supplies	61	-	-	-	-	-	-
Telephone	5,602	-	-	-	-	-	-
Travel	17,786	-	-	-	-	-	-
Utilities	926	-	-	-	-	-	-
<b>Total</b>	<u>\$ 489,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**THOROUGHBRED RETIREMENT FOUNDATION, INC.**  
**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION**  
**For The Year Ended December 31, 2016**  
**(Continued)**

<u>Indiana</u>	<u>Satellite Farms</u>	<u>Montpelier</u>	<u>Wateree SC</u>	<u>New England</u>	<u>Maryland</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,493
-	7	-	-	-	-	1
-	-	-	-	-	-	40,953
-	-	-	-	-	-	250
-	-	-	-	-	-	28,644
-	-	-	-	-	-	19,328
-	-	-	-	-	-	232
-	-	-	-	-	-	1,022
-	-	-	-	-	-	5,588
-	-	-	-	-	-	708
-	-	2,369	-	-	-	22,859
-	-	-	-	-	-	15,375
-	-	-	-	-	-	21,137
-	-	-	-	-	-	9,261
-	-	-	-	-	-	10,710
-	-	-	-	-	-	394
-	-	24,000	-	-	-	282,300
-	-	-	-	-	-	61
-	-	-	-	-	-	5,602
-	-	-	-	-	-	17,786
-	-	-	-	-	-	926
<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 26,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,630</u>