

**THOROUGHBRED RETIREMENT
FOUNDATION, INC.
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2017**

THOROUGHBRED RETIREMENT FOUNDATION, INC.
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THOROUGHBRED RETIREMENT FOUNDATION, INC.

Board of Directors

2017

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Pamela Blatz-Murff, Treasurer

Carl Domino, Secretary

Lenny Hale

Dr. Nat Messer, DVM

Richard Migliore

Dr. William Moyer, DVM

Suzie O’Cain

Leslie Priggen

Erin Birkenhauer

Robert Masiello

Maggie Wolfendale-Morley

Stephanie Brothers Nixon

Donald Place

Paul Saylor

SHEHEEN, HANCOCK & GODWIN, LLP

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August 3, 2018

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, 2017, 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, 2017, 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.

Report on Supplementary Information

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

Sheheen, Hancock & Godwin, LLP
Camden, South Carolina

THOROUGHBRED RETIREMENT FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

Cash and Cash Equivalents	\$ 428,064
Restricted Cash	523,704
Contribution Receivables	62,566
Prepaid Expenses	6,188
Due from Affiliate Organization	55,148
Short-Term Investments	33,588
Long-Term Investments	9,362,704
Fixed Assets, Net of Depreciation	<u>277,367</u>
Total Assets	<u>\$ 10,749,329</u>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Expenses	\$ 390,719
Note Payable - NBSC	<u>1,250,000</u>
Total Liabilities	<u>1,640,719</u>
Net Assets	
Unrestricted	(254,094)
Temporarily Restricted	2,362,704
Permanently Restricted	<u>7,000,000</u>
Total Net Assets	<u>9,108,610</u>
Total Liabilities and Net Assets	<u>\$ 10,749,329</u>

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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions	\$ 1,485,746	\$ 10,000	\$ -	\$ 1,495,746
In-Kind Contributions	88,726	-	-	88,726
Grants	187,230	-	-	187,230
Miscellaneous Income	108,984			108,984
Special Events				
Revenues	135,017	-	-	135,017
Less: Expenses	(29,431)	-	-	(29,431)
Interest Income	490	65,587	-	66,077
Dividend Income	1,298	119,832	-	121,130
Net Realized and Unrealized Gain (Loss)				
on Long-Term Investments	3,858	960,048	-	963,906
Net Assets Released from Restrictions				
Expiration of Time Restriction	<u>456,990</u>	<u>(456,990)</u>	<u>-</u>	<u>-</u>
 Total Support and Revenue	 <u>2,438,908</u>	 <u>698,477</u>	 <u>-</u>	 <u>3,137,385</u>
Expenses				
Program Services	1,901,877	-	-	1,901,877
Supporting Services:				
General and Administrative	383,765	-	-	383,765
Fundraising	<u>372,777</u>	<u>-</u>	<u>-</u>	<u>372,777</u>
 Total Expenses	 <u>2,658,419</u>	 <u>-</u>	 <u>-</u>	 <u>2,658,419</u>
Non-operating Item				
Infrequent Item - Loss on Sale of Middleburg Property	<u>218,202</u>	<u>-</u>	<u>-</u>	<u>218,202</u>
 Total Expenses and Losses	 <u>2,876,621</u>	 <u>-</u>	 <u>-</u>	 <u>2,876,621</u>
 Change In Net Assets	 <u>(437,713)</u>	 <u>698,477</u>	 <u>-</u>	 <u>260,764</u>
Net Assets, Beginning of Year (Restated)	<u>183,619</u>	<u>1,664,227</u>	<u>7,000,000</u>	<u>8,847,846</u>
Net Assets, End of Year	<u>\$ (254,094)</u>	<u>\$ 2,362,704</u>	<u>\$ 7,000,000</u>	<u>\$ 9,108,610</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, 2017

	Program <u>Services</u>	General and <u>Administrative</u>	<u>Fundraising</u>	Direct Benefit <u>to Donors</u>	<u>Total</u>
Accounting	\$ -	94,962	\$ -	\$ -	\$ 94,962
Advertising	22,813	37	11,982	-	34,832
Bank Charges	3,517	4,467	99	-	8,083
Blacksmith	81,993	-	-	-	81,993
Board	663,365	-	-	-	663,365
Contract Labor	7,856	12,493	24,449	-	44,798
Depreciation	41,751	-	-	-	41,751
Dues	995	618	262	-	1,875
Employee Benefits	33,221	7,289	19,532	-	60,042
Equipment Rental	294	2,480	1,956	-	4,730
Feed, Hay and Straw	253,136	-	-	-	253,136
Insurance	31,708	32,868	384	-	64,960
Interest	8,518	89,424	221	-	98,163
Internet	3,381	1,385	1,089	-	5,855
Non-recurring Legal Fees	9,214	17,698	-	-	26,912
Medical Supplies	22,102	-	-	-	22,102
Miscellaneous Expense	-	548	-	-	548
Office Supplies	2,319	5,450	445	-	8,214
Payroll Taxes	33,029	7,458	17,286	-	57,773
Postage and Freight	1,611	2,211	24,590	-	28,412
Printing and Publications	1,414	305	45,226	-	46,945
Promotional	165	-	4,527	29,431	34,123
Rent	14,139	11,615	13,863	-	39,617
Repairs and Maintenance	46,663	-	-	-	46,663
Salaries and Wages	478,707	80,491	192,567	-	751,765
Supplies	15,463	170	18	-	15,651
Taxes and Licenses	3,319	2,814	-	-	6,133
Telephone	5,298	3,110	3,675	-	12,083
Transportation	4,632	-	-	-	4,632
Travel	11,743	2,602	7,276	-	21,621
Training	9,576	-	-	-	9,576
Utilities	23,917	3,270	3,330	-	30,517
Veterinary and Dental Fees	<u>66,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,018</u>
 Total Expenses	 1,901,877	 383,765	 372,777	 29,431	 2,687,850
 Less Expenses Included with Revenues on the Statement of Activities	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(29,431)</u>	 <u>(29,431)</u>
 Total Expenses Included in the Expense Section of the Statement of Activities	 <u>\$ 1,901,877</u>	 <u>\$ 383,765</u>	 <u>\$ 372,777</u>	 <u>\$ -</u>	 <u>\$ 2,658,419</u>

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, 2017

Cash Flows From Operating Activities	
Change in Net Assets	\$ 260,764
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) by Operating Activities:	
Depreciation	41,751
Net Unrealized and Realized Gain on Investments	(963,906)
Loss on Disposal of Fixed Assets	218,202
(Increase) Decrease in:	
Contribution Receivables	34,982
Due From Affiliated Organization	(76,129)
Prepaid Expenses	(5,966)
Increase (Decrease) in:	
Accounts Payable	(228,568)
Accrued Expenses	<u>145</u>
Net Cash (Used) by Operating Activities	<u>(718,725)</u>
Cash Flows From Financing Activities	
Payments on Notes Payable	(200,000)
Payments on Working Capital Notes	<u>(400,000)</u>
Net Cash (Used) by Financing Activities	<u>(600,000)</u>
Cash Flows From Investing Activities	
Purchase of Equipment	(35,644)
Proceeds from Sale of Land	1,500,000
Decrease in Restricted Cash	89,368
(Increase) in Short Term Investments	(31,556)
(Increase) in Long Term Investments	<u>(82,752)</u>
Net Cash Provided by Investing Activities	<u>1,439,416</u>
Increase in Cash and Cash Equivalents	120,691
Cash and Cash Equivalents, Beginning of Year	<u>307,373</u>
Cash and Cash Equivalents, End of Year	<u>\$ 428,064</u>
Supplemental Cash Flows Information:	
Non-Cash Operating Activities	
In-Kind Contribution	<u>\$ 88,726</u>
Interest Paid	<u>\$ 98,163</u>

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

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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, 2017
(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 2015, 2016 and 2017 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, 2017, consist of the following:

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Accounting	\$ 1,174
Board	3,258
Feed, Hay and Straw	2,120
Medical Supplies	1,259
Salaries - Prison Farm Managers	70,220
Supplies	3,502
Travel	4,904
Utilities	<u>2,289</u>
Total In-Kind Donations	<u>\$ 88,726</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.

I. Subsequent Events

The Foundation evaluated events and transactions subsequent to the balance sheet date through August 3, 2018, 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.

THOROUGHbred RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

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, 2017, advertising costs totaled \$34,832.

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, 2017, were comprised of the following:

	Carrying Value
Investments:	
Money Market Funds	\$ 1,548,024
Fixed Income Securities	1,658,372
Exchange Traded Funds	<u>6,189,896</u>
 Total Investments	 <u>\$ 9,396,292</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 3. Fair Value Measurements

Fair value of assets measured on a recurring basis at December 31, 2017, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>
Investments:		
Money Market Funds	\$ 1,548,024	\$ 1,548,024
Fixed Income Securities	1,658,372	1,658,372
Exchange Traded Funds	6,189,896	6,189,896
 Total	 \$ 9,396,292	 \$ 9,396,292

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.

Note 4. Restrictions on Net Assets

Temporarily restricted net assets consist of a variety of funds donated for a specific purpose. Funds are released from restrictions 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, 2017, from the Paul Mellon Endowment Fund are \$7,000,000, the amount of the two (2)

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
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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.

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

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

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 31st. 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, 2017, is as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Donor-Restricted Endowment	<u>\$ 2,362,704</u>	<u>\$ 7,000,000</u>	<u>\$ 9,362,704</u>

Changes in endowment net assets as of December 31, 2017, are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Net Endowment <u>Assets</u>
Endowment Net Assets, Beginning of Year	\$ 1,658,441	\$ 7,000,000	\$ 8,658,441
Investment Income	643,362	-	643,362
Net Appreciation	503,105	-	503,105
5% Distribution	(425,514)	-	(425,514)
Expenses	<u>(16,690)</u>	<u>-</u>	<u>(16,690)</u>
Endowment Net Assets, End of Year	<u>\$ 2,362,704</u>	<u>\$ 7,000,000</u>	<u>\$ 9,362,704</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 6. Fixed Assets

Buildings and Leasehold Improvements	\$ 1,102,641
Equipment and Vehicles	352,691
Office Furniture and Equipment	15,260
Less: Accumulated Depreciation	<u>(1,193,225)</u>
Total	<u>\$ 277,367</u>

Depreciation expense was \$41,751 for the year ended December 31, 2017.

Note 7. Related Party Transactions

During the year ended December 31, 2017, 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, 2017, the Foundation paid \$3,278 to SolvIT.

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, 2017, 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

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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(Continued)

on April 30, 2018. Actual rental expense to the Foundation for the year ended December 31, 2017, was \$16,016.

Note 9. Notes Payable

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

Synovus 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>\$1,250,000</u>
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The future scheduled maturities of long-term debt are as follows:

Years Ending	
<u>31-Dec</u>	
2018	\$ 200,000
2019	<u>1,050,000</u>
Total	<u>\$ 1,250,000</u>

Note 10. Restricted Cash

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

Pfleger Foundation - Second Chances Expansion	\$ 36,824
Farrier Fund	35,915
Santulli - Wallkill Feed	33,148
Sophie Stenbeck Herd Manager Fund	32,817
Hart to Heart Veterinary Fund	61,223
Second Chances Expansion Fund	50,000
Other	<u>273,775</u>
Total	<u>\$ 523,703</u>

Note 11. Subsequent Event

On June 28, 2018, the Foundation refinanced the Synovus loan that would have become due in 2019. The terms of the note will be for 60 months, with semi-annual interest payments at a rate of 5.25% and annual principal payments equal to \$209,600.

THOROUGHBRED RETIREMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(Continued)

On April 1, 2018, the Foundation renewed the Montpelier lease for an additional three years starting April 1, 2018, through March 31, 2021. Rent will be payable in the amount of \$1,800 a month for the first twelve months, \$2,000 a month for the second twelve months, and \$2,400 a month for the last twelve months.

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, 2017, \$364,901 of the Foundation's bank balance of \$993,977, which has a carrying value of \$950,941, was exposed to custodial credit risk since it was not insured and not covered by FDIC limit of \$250,000.

Note 13. Prior Period Adjustment

Certain errors resulting in an overstatement of previously reported restricted cash and due from affiliate were discovered during the current year. Accordingly, an adjustment of \$215,000 was made during 2017 to reduce restricted cash and \$22,619 to increase due from affiliate as of the beginning of the year. A corresponding entry was made to increase previously reported unrestricted net assets by \$22,619, and an entry to reduce previously reported temporarily restricted net assets by \$215,000. The effect of the restatement on net income of 2016 is not determinable.

SUPPLEMENTAL SCHEDULES

THROUGHBRED RETIREMENT FOUNDATION, INC.
SUMMARY SCHEDULE OF REVENUES AND EXPENSES BY LOCATION
For the Year Ended December 31, 2017

	<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>
Revenue:							
Unrestricted Revenue	\$ 1,040,514	\$ 91,564	\$ 8,720	\$ 96,190	\$ 725	\$ 123,137	\$ 149,052
Total Revenue	<u>1,040,514</u>	<u>91,564</u>	<u>8,720</u>	<u>96,190</u>	<u>725</u>	<u>123,137</u>	<u>149,052</u>
Program, Administrative and Fundraising Expenses:							
Program Services	178,786	80,257	70,940	84,069	173,916	90,819	156,179
Management and General	375,209	16	5	-	24	-	-
Fundraising	<u>344,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,115</u>	<u>-</u>
Total Program, Administrative and Fundraising Expenses	<u>898,031</u>	<u>80,273</u>	<u>70,945</u>	<u>84,069</u>	<u>173,940</u>	<u>94,934</u>	<u>156,179</u>
Excess (Deficiency) of Revenue over Expenses	<u>\$ 142,483</u>	<u>\$ 11,291</u>	<u>\$ (62,225)</u>	<u>\$ 12,121</u>	<u>\$ (173,215)</u>	<u>\$ 28,203</u>	<u>\$ (7,127)</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
SUMMARY SCHEDULE OF REVENUES AND EXPENSES BY LOCATION
For The Year Ended December 31, 2017
(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>
\$ 3,280	\$ 138,345	\$ 87,843	\$ 15,097	\$ 260	\$ 8,989	\$ 1,763,716
<u>3,280</u>	<u>138,345</u>	<u>87,843</u>	<u>15,097</u>	<u>260</u>	<u>8,989</u>	<u>1,763,716</u>
54,105	766,793	202,055	14,696	12,271	16,991	1,901,877
-	8,517	-	-	-	(6)	383,765
<u>-</u>	<u>50</u>	<u>24,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>372,777</u>
<u>54,105</u>	<u>775,360</u>	<u>226,631</u>	<u>14,696</u>	<u>12,271</u>	<u>16,985</u>	<u>2,658,419</u>
<u>\$ (50,825)</u>	<u>\$ (637,015)</u>	<u>\$ (138,788)</u>	<u>\$ 401</u>	<u>\$ (12,011)</u>	<u>\$ (7,996)</u>	<u>\$ (894,703)</u>

THROUGHbred RETIREMENT FOUNDATION, INC.
SCHEDULE OF PROGRAM SERVICES BY LOCATION
For the Year Ended December 31, 2017

	<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>
Program Services:							
Advertising	\$ 327	\$ -	\$ -	\$ -	\$ -	\$ 1,436	\$ 18,193
Bank Charges	3,198	-	-	-	-	271	-
Blacksmith	-	4,970	3,325	8,753	10,770	860	11,750
Board	-	-	-	-	78,717	-	-
Contract Labor	(377)	-	-	-	-	5,330	100
Depreciation	1,136	1,338	5,184	-	1,200	7,231	484
Dues	995	-	-	-	-	-	-
Employee Benefits	9,038	-	-	-	7,942	-	357
Equipment Rental	-	-	-	-	-	45	-
Feed, Hay and Straw	-	56,943	6,700	46,486	967	28,395	66,361
Insurance	10,189	-	6,291	-	1,523	1,523	-
Interest	4,794	199	106	275	2	-	-
Internet	450	-	-	-	-	566	748
Non-recurring Legal Fees	8,782	-	-	-	-	432	-
Medical Supplies	6,661	75	537	6,095	1,466	804	2,287
Office Supplies	298	-	-	-	-	225	778
Payroll Taxes	9,070	1,590	3,257	-	4,752	2,410	1,987
Postage and Freight	552	-	-	54	11	50	136
Printing and Publications	-	-	9	-	-	1,363	-
Promotional	-	-	-	-	-	-	-
Rent	-	-	-	-	-	-	-
Repairs and Maintenance	-	437	842	3,377	704	297	12,780
Salaries and Wages	111,322	12,000	40,722	-	52,721	26,000	25,800
Supplies	750	546	589	1,472	306	2,331	6,210
Taxes and Licenses	1,908	-	-	-	259	-	350
Telephone	450	854	-	-	-	-	2,175
Transportation	4,189	-	-	-	-	-	393
Travel	5,054	-	-	9	2,299	1,487	250
Training	-	-	91	1,357	-	5,262	1,047
Utilities	-	198	-	1,092	-	-	-
Veterinary and Dental Fees	-	1,107	3,287	15,099	10,277	4,501	3,993
Total	<u>\$ 178,786</u>	<u>\$ 80,257</u>	<u>\$ 70,940</u>	<u>\$ 84,069</u>	<u>\$ 173,916</u>	<u>\$ 90,819</u>	<u>\$ 156,179</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
SCHEDULE OF PROGRAM SERVICES BY LOCATION
For the Year Ended December 31, 2017
(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>
\$ -	\$ 28	\$ 2,010	\$ 819	\$ -	\$ -	\$ 22,813
-	-	48	-	-	-	3,517
3,585	27,429	8,371	740	-	1,440	81,993
-	584,648	-	-	-	-	663,365
-	2,803	-	-	-	-	7,856
-	-	16,824	1,813	41	6,500	41,751
-	-	-	-	-	-	995
-	-	15,884	-	-	-	33,221
-	-	249	-	-	-	294
10,402	8,822	9,767	4,174	9,125	4,994	253,136
-	6,091	6,091	-	-	-	31,708
7	3,092	-	5	-	38	8,518
-	1,617	-	-	-	-	3,381
-	-	-	-	-	-	9,214
24	1,579	-	456	870	1,248	22,102
-	200	697	-	-	121	2,319
-	65	9,898	-	-	-	33,029
-	167	529	112	-	-	1,611
-	-	-	42	-	-	1,414
-	-	165	-	-	-	165
-	1,500	12,639	-	-	-	14,139
81	-	23,655	3,768	-	722	46,663
37,500	86,969	85,673	-	-	-	478,707
1,468	340	648	14	-	789	15,463
-	-	502	-	-	300	3,319
-	830	900	89	-	-	5,298
-	850	(800)	-	-	-	4,632
-	2,022	596	26	-	-	11,743
-	19	-	1,515	-	285	9,576
-	21,615	1,012	-	-	-	23,917
<u>1,038</u>	<u>16,107</u>	<u>6,697</u>	<u>1,123</u>	<u>2,235</u>	<u>554</u>	<u>66,018</u>
<u>\$ 54,105</u>	<u>\$ 766,793</u>	<u>\$ 202,055</u>	<u>\$ 14,696</u>	<u>\$ 12,271</u>	<u>\$ 16,991</u>	<u>\$ 1,901,877</u>

THROUGHbred RETIREMENT FOUNDATION, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION
For the Year Ended December 31, 2017

	<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>
General and Administrative:							
Accounting Fees	\$ 94,962	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	37	-	-	-	-	-	-
Bank Charges	4,467	-	-	-	-	-	-
Contract Labor	12,493	-	-	-	-	-	-
Dues	618	-	-	-	-	-	-
Employee Benefits	7,289	-	-	-	-	-	-
Equipment Rental	2,480	-	-	-	-	-	-
Insurance	26,907	-	-	-	-	-	-
Interest	89,385	16	5	-	24	-	-
Internet	1,385	-	-	-	-	-	-
Non-recurring Legal Fees	17,698	-	-	-	-	-	-
Miscellaneous Expense	500	-	-	-	-	-	-
Office Supplies	5,361	-	-	-	-	-	-
Payroll Taxes	7,458	-	-	-	-	-	-
Postage and Freight	2,211	-	-	-	-	-	-
Printing and Publications	305	-	-	-	-	-	-
Rent	11,615	-	-	-	-	-	-
Salaries and Wages	80,491	-	-	-	-	-	-
Supplies	170	-	-	-	-	-	-
Taxes and Licenses	2,814	-	-	-	-	-	-
Telephone	3,110	-	-	-	-	-	-
Travel	183	-	-	-	-	-	-
Utilities	3,270	-	-	-	-	-	-
Total	<u>\$ 375,209</u>	<u>\$ 16</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ -</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY LOCATION
For the Year Ended December 31, 2017
(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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,962
-	-	-	-	-	-	37
-	-	-	-	-	-	4,467
-	-	-	-	-	-	12,493
-	-	-	-	-	-	618
-	-	-	-	-	-	7,289
-	-	-	-	-	-	2,480
-	5,961	-	-	-	-	32,868
-	-	-	-	-	(6)	89,424
-	-	-	-	-	-	1,385
-	-	-	-	-	-	17,698
-	48	-	-	-	-	548
-	89	-	-	-	-	5,450
-	-	-	-	-	-	7,458
-	-	-	-	-	-	2,211
-	-	-	-	-	-	305
-	-	-	-	-	-	11,615
-	-	-	-	-	-	80,491
-	-	-	-	-	-	170
-	-	-	-	-	-	2,814
-	-	-	-	-	-	3,110
-	2,419	-	-	-	-	2,602
-	-	-	-	-	-	3,270
<u>\$ -</u>	<u>\$ 8,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6)</u>	<u>\$ 383,765</u>

THROUGHBRED RETIREMENT FOUNDATION, INC.
SCHEDULE OF FUNDRAISING EXPENSES BY LOCATION
For the Year Ended December 31, 2017

	<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>
Fundraising:							
Advertising	\$ 11,982	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bank Charges	99	-	-	-	-	-	-
Contract Labor	24,449	-	-	-	-	-	-
Dues	212	-	-	-	-	-	-
Employee Benefits	19,532	-	-	-	-	-	-
Equipment Rental	1,956	-	-	-	-	-	-
Insurance	384	-	-	-	-	-	-
Interest	221	-	-	-	-	-	-
Internet	1,089	-	-	-	-	-	-
Office Supplies	445	-	-	-	-	-	-
Payroll Taxes	17,286	-	-	-	-	-	-
Postage and Freight	24,590	-	-	-	-	-	-
Printing and Publications	41,111	-	-	-	-	4,115	-
Promotional	4,527	-	-	-	-	-	-
Rent	13,863	-	-	-	-	-	-
Salaries and Wages	167,991	-	-	-	-	-	-
Supplies	18	-	-	-	-	-	-
Telephone	3,675	-	-	-	-	-	-
Travel	7,276	-	-	-	-	-	-
Utilities	3,330	-	-	-	-	-	-
Total	<u>\$ 344,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,115</u>	<u>\$ -</u>

THOROUGHBRED RETIREMENT FOUNDATION, INC.
SCHEDULE OF FUNDRAISING EXPENSES BY LOCATION
For the Year Ended December 31, 2017
(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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,982
-	-	-	-	-	-	99
-	-	-	-	-	-	24,449
-	50	-	-	-	-	262
-	-	-	-	-	-	19,532
-	-	-	-	-	-	1,956
-	-	-	-	-	-	384
-	-	-	-	-	-	221
-	-	-	-	-	-	1,089
-	-	-	-	-	-	445
-	-	-	-	-	-	17,286
-	-	-	-	-	-	24,590
-	-	-	-	-	-	45,226
-	-	-	-	-	-	4,527
-	-	-	-	-	-	13,863
-	-	24,576	-	-	-	192,567
-	-	-	-	-	-	18
-	-	-	-	-	-	3,675
-	-	-	-	-	-	7,276
-	-	-	-	-	-	3,330
<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 24,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,777</u>