

American Morgan Horse Educational Charitable Trust

Financial Statements
(With Independent Auditors' Report)

For the Years Ended December 31, 2018 and 2017

American Morgan Horse Educational Charitable Trust

December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
American Morgan Horse Educational Charitable Trust
Shelburne, Vermont

We have audited the accompanying financial statements of American Morgan Horse Educational Charitable Trust (the "Trust"), which comprise the statement of financial position as of December 31, 2018 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 of material misstatement, whether due to fraud or error.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 American Morgan Horse Educational Charitable Trust as of December 31, 2018 and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (1) to the financial statements, in 2018, the Trust adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The most significant provisions of the update address classification of net assets, liquidity and functional expense disclosures.

Report on Summarized Comparative Information

We have previously audited the Trust's 2017 financial statements and in our report dated June 15, 2018, we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



South Burlington, Vermont
June 10, 2019
VT Reg. No. 92-349

American Morgan Horse Educational Charitable Trust

Statements of Financial Position

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,013,523	\$ 917,119
Accounts receivable, net of allowance for doubtful accounts of \$5,125 as of December 31, 2018 and 2017	94,719	131,045
Prepaid expenses	<u>21,459</u>	<u>21,761</u>
Total current assets	1,129,701	1,069,925
Equipment, net of accumulated depreciation	<u>8,220</u>	<u>12,413</u>
Total assets	<u>\$ 1,137,921</u>	<u>\$ 1,082,338</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 14,852	\$ 31,310
Due to the American Morgan Horse Association	<u>11,090</u>	<u>26,177</u>
Total liabilities	<u>25,942</u>	<u>57,487</u>
Net assets:		
Without donor restrictions	615,229	587,919
Without donor restrictions - contingency reserve	443,776	386,199
With donor restrictions	<u>52,974</u>	<u>50,733</u>
Total net assets	<u>1,111,979</u>	<u>1,024,851</u>
Total liabilities and net assets	<u>\$ 1,137,921</u>	<u>\$ 1,082,338</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statements of Activities
For the Year Ended December 31, 2018
(With Summarized Information for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	(summarized) 2017 Total
Revenue and support:				
Contributions, grants and auctions	\$ 134,472	\$ 8,832	\$ 143,304	\$ 135,502
Fees, sponsorships and other income	1,718,290	-	1,718,290	1,684,990
Net assets released from restriction	<u>6,591</u>	<u>(6,591)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,859,353</u>	<u>2,241</u>	<u>1,861,594</u>	<u>1,820,492</u>
Expenses:				
Programs	1,540,711	-	1,540,711	1,552,731
Management and administration	137,515	-	137,515	145,147
Fundraising	<u>95,703</u>	<u>-</u>	<u>95,703</u>	<u>91,089</u>
Total expenses	<u>1,773,929</u>	<u>-</u>	<u>1,773,929</u>	<u>1,788,967</u>
Change in net assets from operations	85,424	2,241	87,665	31,525
Other changes:				
Provision for income tax	(600)	-	(600)	(300)
Net investment income	<u>63</u>	<u>-</u>	<u>63</u>	<u>399</u>
Change in net assets	84,887	2,241	87,128	31,624
Net assets, beginning of the year	<u>974,118</u>	<u>50,733</u>	<u>1,024,851</u>	<u>993,227</u>
Net assets, end of the year	<u>\$ 1,059,005</u>	<u>\$ 52,974</u>	<u>\$ 1,111,979</u>	<u>\$ 1,024,851</u>

See accompanying notes to the financial statements.

AMERICAN MORGAN HORSE EDUCATIONAL CHARITABLE TRUST
Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Summarized Comparative Totals for the Year Ended December 31, 2017)

	<u>Supporting Services</u>			Total Supporting Services	2018 Total	2017 Total
	Program Services	Fundraising	Management and General			
Accounting	\$ -	\$ -	\$ 9,700	\$ 9,700	\$ 9,700	\$ 9,158
Advertising and promotions	19,050	95,703	-	95,703	114,753	99,170
Awards	278,269	-	-	-	278,269	271,349
Bank and credit card fees	-	-	33,664	33,664	33,664	29,968
Computer	-	-	540	540	540	513
Depreciation and amortization	-	-	4,193	4,193	4,193	4,908
Donations and grants	42,091	-	-	-	42,091	39,773
Event expenses	136,083	-	-	-	136,083	135,559
Equipment expenses	14,505	-	-	-	14,505	12,406
Food and beverages	12,302	-	6,068	6,068	18,370	8,427
Footing	-	-	-	-	-	33,230
Furniture rental	5,217	-	-	-	5,217	5,207
Hospitality	-	-	-	-	-	5,436
Insurance	-	-	6,616	6,616	6,616	6,668
Legal	-	-	3,465	3,465	3,465	12,527
Meetings	-	-	6,733	6,733	6,733	3,189
Merchandise	16,548	-	-	-	16,548	14,710
Miscellaneous	631	-	507	507	1,138	273
Museum expenses	-	-	233	233	233	-
Office expenses	-	-	7,437	7,437	7,437	7,019
Printing	6,186	-	1,797	1,797	7,983	7,498
Postage	-	-	2,835	2,835	2,835	3,892
Registration fees	23,825	-	5,826	5,826	29,651	22,703
Rent	298,008	-	975	975	298,983	308,039
Salaries and wages	165,398	-	35,960	35,960	201,358	215,984
Scholarships	2,500	-	-	-	2,500	3,000
Security	42,475	-	-	-	42,475	42,191
Storage	-	-	3,231	3,231	3,231	3,879
Subcontracting	283,895	-	-	-	283,895	297,165
Subscription and license fees	65,000	-	5,681	5,681	70,681	69,239
Telephone	-	-	1,928	1,928	1,928	2,322
Travel	113,228	-	126	126	113,354	98,065
Youth expenses	15,500	-	-	-	15,500	15,500
Totals	<u>\$ 1,540,711</u>	<u>\$ 95,703</u>	<u>\$ 137,515</u>	<u>\$ 233,218</u>	<u>\$ 1,773,929</u>	<u>\$ 1,788,967</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ 87,128</u>	<u>\$ 31,624</u>
Adjustments to reconcile change in net assets to net cash provided for operating activities:		
Depreciation and amortization	4,193	4,908
(Increase) decrease in accounts receivable	36,326	(4,508)
Decrease in prepaid expenses	302	2,441
Increase (decrease) in accounts payable	(16,458)	4,680
Increase (decrease) in due to the American Morgan Horse Association	<u>(15,087)</u>	<u>6,976</u>
Total adjustments	<u>9,276</u>	<u>14,497</u>
Net cash provided for operating activities	<u>96,404</u>	<u>46,121</u>
Cash flows from investing activities:		
Acquisition of equipment	<u>-</u>	<u>(4,476)</u>
Net increase in cash and cash equivalents	96,404	41,645
Cash and cash equivalents, beginning of year	<u>917,119</u>	<u>875,474</u>
Cash and cash equivalents, end of year	<u>\$ 1,013,523</u>	<u>\$ 917,119</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

The American Morgan Horse Educational Charitable Trust (the “Trust”) is an educational and charitable trust organized under the laws of New York State in September 2002 to support the American Morgan Horse Association (the “Association”) educational programs and services. The purpose of the Trust is to provide grants and related expenses for on-going educational efforts focusing on building awareness of the history and benefits derived from raising and owning Morgan horses and to promote an appreciation of the breed.

The following summarizes the Trust’s significant accounting policies:

(a) Method of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting.

(b) Basis of Presentation

The Trust is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The Trust is also required to present a statement of cash flows.

During 2018, the Trust adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, which requires organizations to modify the financial statement presentation of not-for-profit organizations. Some of the key changes in the new standard reduces net asset classifications from three to two, increases disclosures over board-designated net assets, and requires new liquidity and availability disclosures in the notes to the financial statements.

(c) Contributions

Contributions received are recorded as with donor restrictions and without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Contributions with donor restrictions are reclassified to without donor restrictions upon satisfaction of the time or purpose restrictions. Contributions with donor restrictions whose restrictions are met in the same period as received are reported as contributions without donor restrictions.

(d) Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

Summary of Significant Accounting Policies (continued)

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

(e) Property and Equipment

Equipment that is greater than \$1,000 is recorded on the statements of financial position at cost. Expenditures for maintenance and repairs are charged against operations. Betterments that materially extend the life of the assets are capitalized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives for all equipment range from three to ten years.

(f) Estimates

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

(g) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Trust considers all highly liquid debt instruments with an initial maturity of three months or less and all certificates of deposit to be cash equivalents.

(h) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Trust charges current earnings with an allowance for doubtful accounts receivable based on collection experience and a review of the collectability of specific accounts.

(i) Functional Allocation of Expenses

The costs of providing various programs have been summarized on a functional basis as a separate statement in the financial statements. The statement of functional expenses presents the natural classification detail of expenses by function. There are no costs that have been allocated among the programs and supporting services benefited.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

Summary of Significant Accounting Policies (continued)

(j) Deferred Revenues and Prepaid Expenses

Deferred revenue and prepaid expenses primarily represent revenues received and expenses paid for prior to year-end relating to horse shows performed subsequent to the end of the year.

(k) Federal Income Taxes

The Trust qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes under Section 501(a) of the Internal Revenue Code. In addition, it has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

FASB ASC 740, *Income Taxes*, requires entities to disclose in their financial statements the nature of any uncertainty in their tax positions. For tax-exempt entities, tax-exempt status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. Management believes the Trust has no uncertain tax positions. The Trust anticipates that it will not have a change in uncertain tax positions during the next twelve months that would have a material impact on the Trust's financial statements. If necessary, the Trust would accrue interest and penalties on uncertain tax positions as a component of the provision for income taxes. The Trust is no longer subject to federal and state income tax examinations by tax authorities for years before the year ended December 31, 2015.

(l) Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with United States generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended December 31, 2017 from which the summarized information was derived.

(m) Recently Issued Accounting Standards

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and accounting guidance for both contributions received and made to assist all entities in evaluating whether a transaction should be accounted for as a contribution or exchange transaction. This standard should be applied on a modified prospective basis. Retrospective application is permitted.

The new standard is effective for the Trust for fiscal years beginning after January 1, 2020, with early adoption permitted.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Trust for fiscal years beginning after October 1, 2020, with early adoption permitted.

(n) Subsequent Events

The Trust evaluated subsequent events through June 10, 2019, the date the Trust's financial statements were available to be issued.

(2) Retirement Plan

The Trust maintains a 401(k)-profit sharing plan. Full-time employees who are 21 years of age and have completed a minimum of one year of service are eligible to participate. Participants can make elective deferrals up to 15% of their compensation. The Trust matches up to 3% of eligible salary. The Trust contributed \$852 and \$1,770 for the years ended December 31, 2018 and 2017, respectively.

(3) Commitments

The Trust entered into an agreement with Oklahoma State Fair, Inc. which has been amended and extended through December 31, 2027 to provide facilities and services for the annual Grand National & World Championship Morgan Horse Show. The contract agreement is written with an annual minimum base fee plus a variable charge for incidentals ranging from utilities to on-site security. Total contract expense including incidentals was \$340,483 and \$346,330 for the years ended December 31, 2018 and 2017, respectively. Future minimum contract payments excluding incidentals are as follows:

<u>Year</u>	
2019	\$ 205,000
2020	205,000
2021	205,000
2022	205,000
2023	225,500
Thereafter	<u>902,000</u>
	<u>\$ 1,947,500</u>

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

(4) Equipment

Equipment consists of the following as of December 31st:

	<u>2018</u>	<u>2017</u>
Decorations	\$ 10,915	\$ 10,915
Furniture and fixtures	7,806	7,806
Electronics	3,902	3,902
Equipment	<u>7,000</u>	<u>7,000</u>
Subtotal	29,623	29,623
Less – accumulated depreciation	<u>(21,403)</u>	<u>(17,210)</u>
Equipment, net	<u>\$ 8,220</u>	<u>\$ 12,413</u>

(5) Related Party Transactions

Effective November 1, 2012, the Trust entered into an agreement to pay a \$65,000 per year licensing fee to the Association in connection with its staging of the annual “Grand National & World Championship Morgan Horse Show”. During 2017, the agreement was amended to extend the term an additional five years.

In addition, the Trust owes various amounts to the Association for sponsorships, youth program funding, expense reimbursements, and fund withdrawals. Amounts due to the Association were \$11,090 and \$26,177 at December 31, 2018 and 2017, respectively.

(6) Concentration of Cash on Deposit

The Trust has concentrated its credit risk for cash by maintaining deposits in financial institutions that at times may exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation (FDIC). The Trust has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

(7) Net Assets With Donor Restrictions

Net assets with donor restrictions consist of donations restricted for Morgan Horse youth programs and events.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2018 and 2017

(8) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 960,549	\$ 866,386
Accounts receivable	<u>94,719</u>	<u>131,045</u>
	<u>\$ 1,055,268</u>	<u>\$ 997,431</u>

The Trust regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Trust has several sources of liquidity at its disposal, including cash and cash equivalents and accounts receivable.

In addition to financial assets available to meet general expenditures over the next 12 months, the Trust operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Trust strives to maintain liquid cash reserves sufficient to cover 45 days of general expenditures. General expenditures include administrative, fundraising and operating expenses.