

American Morgan Horse Educational Charitable Trust

Financial Statements
(With Independent Auditors' Report)

For the Years Ended December 31, 2019 and 2018

American Morgan Horse Educational Charitable Trust

December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
American Morgan Horse Educational Charitable Trust
Lexington, Kentucky

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, 2019 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, 2019 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.

Report on Summarized Comparative Information

We have previously audited the Trust's 2018 financial statements and in our report dated June 10, 2019, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



South Burlington, Vermont
June 26, 2020
VT Reg. No. 92-349

American Morgan Horse Educational Charitable Trust

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,043,914	\$ 1,013,523
Accounts receivable, net of allowance for doubtful accounts of \$5,125 as of December 31, 2019 and 2018	93,054	94,719
Prepaid expenses	<u>18,858</u>	<u>21,459</u>
Total current assets	1,155,826	1,129,701
Equipment, net of accumulated depreciation	<u>16,315</u>	<u>8,220</u>
Total assets	<u>\$ 1,172,141</u>	<u>\$ 1,137,921</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 20,869	\$ 14,852
Due to the American Morgan Horse Association	<u>9,725</u>	<u>11,090</u>
Total liabilities	<u>30,594</u>	<u>25,942</u>
Net assets:		
Without donor restrictions	562,425	615,229
Without donor restrictions - contingency reserve	533,465	443,776
With donor restrictions	<u>45,657</u>	<u>52,974</u>
Total net assets	<u>1,141,547</u>	<u>1,111,979</u>
Total liabilities and net assets	<u>\$ 1,172,141</u>	<u>\$ 1,137,921</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statement of Activities
For the Year Ended December 31, 2019
(With Summarized Information for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(summarized) 2018 Total
Revenue and support:				
Contributions, grants and auctions	\$ 272,660	\$ 18,668	\$ 291,328	\$ 143,304
Fees, sponsorships and other income	1,634,052	-	1,634,052	1,718,290
Net assets released from restriction	<u>25,985</u>	<u>(25,985)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,932,697</u>	<u>(7,317)</u>	<u>1,925,380</u>	<u>1,861,594</u>
Expenses:				
Program services	1,627,196	-	1,627,196	1,540,711
Management and general	168,377	-	168,377	137,515
Fundraising	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>95,703</u>
Total expenses	<u>1,895,573</u>	<u>-</u>	<u>1,895,573</u>	<u>1,773,929</u>
Change in net assets from operations	37,124	(7,317)	29,807	87,665
Other changes:				
Provision for income tax	(300)	-	(300)	(600)
Net investment income	<u>61</u>	<u>-</u>	<u>61</u>	<u>63</u>
Change in net assets	36,885	(7,317)	29,568	87,128
Net assets, beginning of the year	<u>1,059,005</u>	<u>52,974</u>	<u>1,111,979</u>	<u>1,024,851</u>
Net assets, end of the year	<u>\$ 1,095,890</u>	<u>\$ 45,657</u>	<u>\$ 1,141,547</u>	<u>\$ 1,111,979</u>

See accompanying notes to the financial statements.

AMERICAN MORGAN HORSE EDUCATIONAL CHARITABLE TRUST
Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Summarized Comparative Totals for the Year Ended December 31, 2018)

	<u>Supporting Services</u>			Total Supporting Services	2019 Total	2018 Total
	Program Services	Fundraising	Management and General			
Accounting	\$ -	\$ -	\$ 9,881	\$ 9,881	\$ 9,881	\$ 9,700
Advertising and promotions	15,335	100,000	300	100,300	115,635	114,753
Awards	266,937	-	-	-	266,937	278,269
Bad debt expense	-	-	17,720	17,720	17,720	-
Bank and credit card fees	-	-	34,941	34,941	34,941	33,664
Computer	-	-	279	279	279	540
Depreciation and amortization	-	-	5,755	5,755	5,755	4,193
Donations and grants	41,215	-	-	-	41,215	42,091
Event expenses	165,742	-	-	-	165,742	136,083
Equipment expenses	13,155	-	-	-	13,155	14,505
Food and beverages	12,583	-	12,400	12,400	24,983	18,370
Footing	11,856	-	-	-	11,856	-
Furniture rental	5,197	-	-	-	5,197	5,217
Insurance	-	-	5,448	5,448	5,448	6,616
Legal	-	-	1,919	1,919	1,919	3,465
Meetings	-	-	2,176	2,176	2,176	6,733
Merchandise	20,770	-	-	-	20,770	16,548
Miscellaneous	10,529	-	-	-	10,529	1,138
Museum expenses	-	-	-	-	-	233
Office expenses	-	-	7,446	7,446	7,446	7,437
Printing	5,363	-	1,268	1,268	6,631	7,983
Postage	-	-	2,085	2,085	2,085	2,835
Registration fees	22,650	-	4,941	4,941	27,591	29,651
Rent	294,117	-	-	-	294,117	298,983
Salaries and wages	133,761	-	50,803	50,803	184,564	201,358
Scholarships	12,000	-	-	-	12,000	2,500
Security	39,433	-	-	-	39,433	42,475
Stallion service auction	45,297	-	-	-	45,297	-
Storage	-	-	4,947	4,947	4,947	3,231
Subcontracting	308,420	-	-	-	308,420	283,895
Subscription and license fees	65,000	-	4,555	4,555	69,555	70,681
Telephone	-	-	1,513	1,513	1,513	1,928
Travel	122,336	-	-	-	122,336	113,354
Youth expenses	15,500	-	-	-	15,500	15,500
Totals	<u>\$ 1,627,196</u>	<u>\$ 100,000</u>	<u>\$ 168,377</u>	<u>\$ 268,377</u>	<u>\$ 1,895,573</u>	<u>\$ 1,773,929</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 29,568	\$ 87,128
Adjustments to reconcile change in net assets to net cash provided for operating activities:		
Depreciation and amortization	5,755	4,193
Decrease in accounts receivable	1,665	36,326
Decrease in prepaid expenses	2,601	302
Increase (decrease) in accounts payable	6,017	(16,458)
Decrease in due to the American Morgan Horse Association	<u>(1,365)</u>	<u>(15,087)</u>
Total adjustments	<u>14,673</u>	<u>9,276</u>
Net cash provided for operating activities	<u>44,241</u>	<u>96,404</u>
Cash flows from investing activities:		
Acquisition of equipment	<u>(13,850)</u>	<u>-</u>
Net increase in cash and cash equivalents	30,391	96,404
Cash and cash equivalents, beginning of year	<u>1,013,523</u>	<u>917,119</u>
Cash and cash equivalents, end of year	<u>\$ 1,043,914</u>	<u>\$ 1,013,523</u>
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Income taxes	<u>\$ 300</u>	<u>\$ 600</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2019 and 2018

(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 Trust moved their headquarters from Shelburne, Vermont to Lexington, Kentucky at the end of 2019.

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 statements of functional expenses and cash flows.

(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 a contingency reserve.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2019 and 2018

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) Equipment

Equipment is recorded on the statements of financial position at cost. Expenditures for maintenance and repairs are charged against operations. The Trust capitalizes all significant betterments with a cost or value of at least \$1,000.

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 statements 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. The allowance for doubtful accounts was \$5,175 as of December 31, 2019 and 2018.

(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, 2019 and 2018

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, 2016.

(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, 2018 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 December 15, 2019, with early adoption permitted.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2019 and 2018

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 December 15, 2021, with early adoption permitted.

(n) Subsequent Events

The Trust evaluated subsequent events through June 26, 2020, the date the Trust's financial statements were available to be issued.

(2) 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 \$333,550 and \$340,483 for the years ended December 31, 2019 and 2018, respectively. Future minimum contract payments excluding incidentals are as follows:

<u>Year</u>	
2020	\$ 205,000
2021	205,000
2022	205,000
2023	225,500
2024	225,500
Thereafter	<u>676,500</u>
	<u>\$ 1,742,500</u>

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2019 and 2018

(3) Equipment

Equipment consists of the following as of December 31st:

	2019	2018
Decorations	\$ 24,766	\$ 10,915
Furniture and fixtures	7,806	7,806
Electronics	3,902	3,902
Equipment	7,000	7,000
Subtotal	43,474	29,623
Less – accumulated depreciation	(27,159)	(21,403)
Equipment, net	<u>\$ 16,315</u>	<u>\$ 8,220</u>

Depreciation expense amounted to \$5,755 and \$4,193 for the years ended December 31, 2019 and 2018, respectively.

(4) 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 \$9,725 and \$11,090 at December 31, 2019 and 2018, respectively.

(5) 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.

(6) 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, 2019 and 2018

(7) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of December 31, 2019:

	<u>2019</u>
Cash and cash equivalents	\$ 464,792
Accounts receivable	<u>93,054</u>
	<u>\$ 557,846</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.

(8) Litigation

The Trust is involved in litigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Trust's future financial position or results. Management believes the potential for an adverse effect is minimized due to coverage with insurance policies.

(9) Subsequent Event

In March 2020, a worldwide pandemic was declared due to the spread of COVID-19. The ultimate impact of this event on the Trust's operations and financial statements is unknown as of the date of the auditors' report.