

American Morgan Horse Educational Charitable Trust

Financial Statements
(With Independent Auditors' Report)

For the Years Ended December 31, 2020 and 2019

American Morgan Horse Educational Charitable Trust

December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Trust's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



August 2, 2021
South Burlington, Vermont
VT Reg. No. 92-349

American Morgan Horse Educational Charitable Trust
 Statements of Financial Position
 December 31, 2020 and 2019

| | 2020 | 2019 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,100,254 | \$ 1,043,914 |
| Accounts receivable, net of allowance for doubtful accounts of \$5,125 as of December 31, 2020 and 2019 | 311,895 | 93,054 |
| Prepaid expenses | 91,451 | 18,858 |
| Total current assets | 1,503,600 | 1,155,826 |
| Equipment, net of accumulated depreciation | 8,926 | 16,315 |
| Total assets | \$ 1,512,526 | \$ 1,172,141 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 27,879 | \$ 20,869 |
| Due to the American Morgan Horse Association | 12,433 | 9,725 |
| Total liabilities | 40,312 | 30,594 |
| Net assets: | | |
| Without donor restrictions | 897,068 | 562,425 |
| Without donor restrictions - contingency reserve | 533,465 | 533,465 |
| With donor restrictions | 41,681 | 45,657 |
| Total net assets | 1,472,214 | 1,141,547 |
| Total liabilities and net assets | \$ 1,512,526 | \$ 1,172,141 |

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statement of Activities
For the Year Ended December 31, 2020
(With Summarized Information for the Year Ended December 31, 2019)

| | Without Donor Restrictions | With Donor Restrictions | 2020 Total | (summarized) 2019 Total |
|--------------------------------------|-------------------------------|----------------------------|---------------------|-------------------------------|
| Revenue and support: | | | | |
| Contributions, grants and auctions | \$ 420,688 | \$ 6,208 | \$ 426,896 | \$ 291,328 |
| Fees, sponsorships and other income | 1,504,439 | - | 1,504,439 | 1,634,052 |
| Net assets released from restriction | <u>10,184</u> | <u>(10,184)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>1,935,311</u> | <u>(3,976)</u> | <u>1,931,335</u> | <u>1,925,380</u> |
| Expenses: | | | | |
| Program services | 1,368,076 | - | 1,368,076 | 1,627,196 |
| Management and general | 162,082 | - | 162,082 | 168,377 |
| Fundraising | <u>67,432</u> | <u>-</u> | <u>67,432</u> | <u>100,000</u> |
| Total expenses | <u>1,597,590</u> | <u>-</u> | <u>1,597,590</u> | <u>1,895,573</u> |
| Change in net assets from operations | 337,721 | (3,976) | 333,745 | 29,807 |
| Other changes: | | | | |
| Provision for income tax | (300) | - | (300) | (300) |
| Loss on disposal of assets | (2,800) | - | (2,800) | - |
| Net investment income | <u>22</u> | <u>-</u> | <u>22</u> | <u>61</u> |
| Other changes | <u>(3,078)</u> | <u>-</u> | <u>(3,078)</u> | <u>(239)</u> |
| Change in net assets | 334,643 | (3,976) | 330,667 | 29,568 |
| Net assets, beginning of the year | <u>1,095,890</u> | <u>45,657</u> | <u>1,141,547</u> | <u>1,111,979</u> |
| Net assets, end of the year | <u>\$ 1,430,533</u> | <u>\$ 41,681</u> | <u>\$ 1,472,214</u> | <u>\$ 1,141,547</u> |

See accompanying notes to the financial statements.

AMERICAN MORGAN HORSE EDUCATIONAL CHARITABLE TRUST
Statement of Functional Expenses
For the Year Ended December 31, 2020
(With Summarized Comparative Totals for the Year Ended December 31, 2019)

| | <u>Supporting Services</u> | | | Total Supporting Services | 2020 Total | 2019 Total |
|-------------------------------|-----------------------------|--------------------|-----------------------------------|---------------------------------|---------------------|---------------------|
| | <u>Program Services</u> | <u>Fundraising</u> | <u>Management and General</u> | | | |
| Accounting | \$ - | \$ - | \$ 16,270 | \$ 16,270 | \$ 16,270 | \$ 9,881 |
| Advertising and promotions | 7,825 | 67,432 | 125 | 67,557 | 75,382 | 115,635 |
| Awards | 167,346 | - | - | - | 167,346 | 266,937 |
| Bad debt expense | - | - | 5,000 | 5,000 | 5,000 | 17,720 |
| Bank and credit card fees | - | - | 33,236 | 33,236 | 33,236 | 34,941 |
| Computer | - | - | 105 | 105 | 105 | 279 |
| Depreciation | - | - | 4,589 | 4,589 | 4,589 | 5,755 |
| Donations and grants | 12,260 | - | - | - | 12,260 | 41,215 |
| Event expenses | 67,040 | - | - | - | 67,040 | 165,742 |
| Equipment expenses | 15,202 | - | - | - | 15,202 | 13,155 |
| Food and beverages | 10,576 | - | 6,010 | 6,010 | 16,586 | 24,983 |
| Footing | 13,100 | - | - | - | 13,100 | 11,856 |
| Furniture rental | 4,121 | - | - | - | 4,121 | 5,197 |
| Insurance | - | - | 8,525 | 8,525 | 8,525 | 5,448 |
| Legal | - | - | 501 | 501 | 501 | 1,919 |
| Meetings | - | - | 8,263 | 8,263 | 8,263 | 2,176 |
| Merchandise | 7,136 | - | - | - | 7,136 | 20,770 |
| Miscellaneous | 6,173 | - | 5,268 | 5,268 | 11,441 | 10,529 |
| Office expenses | - | - | 8,243 | 8,243 | 8,243 | 7,446 |
| Printing | 171 | - | 1,177 | 1,177 | 1,348 | 6,631 |
| Postage | - | - | 1,844 | 1,844 | 1,844 | 2,085 |
| Registration fees | 19,975 | - | 4,255 | 4,255 | 24,230 | 27,591 |
| Rent | 291,917 | - | - | - | 291,917 | 294,117 |
| Salaries and wages | 141,267 | - | 42,551 | 42,551 | 183,818 | 184,564 |
| Scholarships | 17,320 | - | - | - | 17,320 | 12,000 |
| Security | 38,720 | - | - | - | 38,720 | 39,433 |
| Stallion service auction | 61,017 | - | - | - | 61,017 | 45,297 |
| Storage | - | - | 4,928 | 4,928 | 4,928 | 4,947 |
| Subcontracting | 296,459 | - | - | - | 296,459 | 308,420 |
| Subscription and license fees | 65,000 | - | 9,169 | 9,169 | 74,169 | 69,555 |
| Telephone | - | - | 1,171 | 1,171 | 1,171 | 1,513 |
| Travel | 110,942 | - | 852 | 852 | 111,794 | 122,336 |
| Youth expenses | 14,609 | - | - | - | 14,609 | 15,500 |
| Totals | <u>\$ 1,368,176</u> | <u>\$ 67,432</u> | <u>\$ 162,082</u> | <u>\$ 229,514</u> | <u>\$ 1,597,690</u> | <u>\$ 1,895,573</u> |

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | <u>\$ 330,667</u> | <u>\$ 29,568</u> |
| Adjustments to reconcile change in net assets to net cash provided for operating activities: | | |
| Depreciation and amortization | 4,589 | 5,755 |
| Loss on disposal of equipment | 2,800 | - |
| (Increase) decrease in accounts receivable | (218,841) | 1,665 |
| (Increase) decrease in prepaid expenses | (72,593) | 2,601 |
| Increase in accounts payable | 7,010 | 6,017 |
| Increase (decrease) in due to the American Morgan Horse Association | <u>2,708</u> | <u>(1,365)</u> |
| Total adjustments | <u>(274,327)</u> | <u>14,673</u> |
| Net cash provided for operating activities | <u>56,340</u> | <u>44,241</u> |
| Cash flows from investing activities: | | |
| Acquisition of equipment | <u>-</u> | <u>(13,850)</u> |
| Net increase in cash and cash equivalents | 56,340 | 30,391 |
| Cash and cash equivalents, beginning of year | <u>1,043,914</u> | <u>1,013,523</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,100,254</u> | <u>\$ 1,043,914</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the years for: | | |
| Income taxes | <u>\$ 300</u> | <u>\$ 300</u> |

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2020 and 2019

(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

Effective January 1, 2020, the Trust adopted 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 was adopted on the modified retrospective basis. Under the modified retrospective method of adoption, prior periods are not restated and the new guidance is applied prospectively to revenue transactions completed on or after January 1, 2020. Given the nature of the Trust’s revenue transactions, the new guidance had an immaterial impact on the Trust’s revenue, results of operations and financial position for the year ended December 31, 2020.

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.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2020 and 2019

Summary of Significant Accounting Policies (continued)

(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.

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.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2020 and 2019

Summary of Significant Accounting Policies (continued)

(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 \$5,125 as of December 31, 2020 and 2019.

(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.

(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, 2017.

(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, 2019 from which the summarized information was derived.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2020 and 2019

Summary of Significant Accounting Policies (continued)

(m) Recently Issued Accounting Standards

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 statement of financial position 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 statement of activities.

The new standard is effective for the Trust on January 1, 2022.

(n) Subsequent Events

The Trust evaluated subsequent events through August 2, 2021, 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 \$330,637 and \$333,550 for the years ended December 31, 2020 and 2019, respectively. Future minimum contract payments excluding incidentals are as follows:

| <u>Year</u> | |
|-------------|---------------------|
| 2021 | \$ 205,000 |
| 2022 | 205,000 |
| 2023 | 225,500 |
| 2024 | 225,500 |
| 2025 | 225,500 |
| Thereafter | <u>451,000</u> |
| | <u>\$ 1,537,500</u> |

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2020 and 2019

(3) Equipment

Equipment consists of the following as of December 31st:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-----------------|------------------|
| Decorations | \$ 24,766 | \$ 24,766 |
| Furniture and fixtures | 7,806 | 7,806 |
| Electronics | 3,902 | 3,902 |
| Equipment | <u>-</u> | <u>7,000</u> |
| Subtotal | 36,474 | 43,474 |
| Less – accumulated depreciation | <u>(27,548)</u> | <u>(27,159)</u> |
| Equipment, net | <u>\$ 8,926</u> | <u>\$ 16,315</u> |

Depreciation expense amounted to \$4,589 and \$5,755 for the years ended December 31, 2020 and 2019, 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 \$12,433 and \$9,725 at December 31, 2020 and 2019, 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, 2020 and 2019

(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 statements of financial position date, comprise the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 525,108 | \$ 464,792 |
| Accounts receivable | 311,895 | 93,054 |
| | <u>\$ 837,003</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 was involved in litigations arising in the normal course of business that were resolved in 2020.