

American Morgan Horse Educational Charitable Trust

Financial Statements
(With Independent Auditors' Report)

For the Years Ended December 31, 2017 and 2016

American Morgan Horse Educational Charitable Trust

December 31, 2017 and 2016

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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, 2017 and the related statements of activities 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, 2017 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 2016 financial statements and our report dated April 28, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McSoley McCoy & Co.

South Burlington, Vermont
June 15, 2018

VT Reg. No. 92-349

American Morgan Horse Educational Charitable Trust

Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 917,119	\$ 875,474
Accounts receivable, net of allowance for doubtful accounts of \$5,125 as of December 31, 2017 and 2016	131,045	126,537
Prepaid expenses	<u>21,761</u>	<u>24,202</u>
Total current assets	1,069,925	1,026,213
Equipment, net of accumulated depreciation	<u>12,413</u>	<u>12,845</u>
Total assets	<u>\$ 1,082,338</u>	<u>\$ 1,039,058</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 31,310	\$ 26,630
Due to the American Morgan Horse Association	<u>26,177</u>	<u>19,201</u>
Total liabilities	<u>57,487</u>	<u>45,831</u>
Net assets:		
Unrestricted	587,919	824,966
Unrestricted - contingency reserve	386,199	110,188
Temporarily restricted	<u>50,733</u>	<u>58,073</u>
Total net assets	<u>1,024,851</u>	<u>993,227</u>
Total liabilities and net assets	<u>\$ 1,082,338</u>	<u>\$ 1,039,058</u>

See accompanying notes and independent auditors' report.

American Morgan Horse Educational Charitable Trust
Statements of Activities
For the Year Ended December 31, 2017
(With Summarized Information for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>(summarized) 2016 Total</u>
Revenue and support:					
Contributions, grants and auctions	\$ 129,554	\$ 5,948	\$ -	\$ 135,502	\$ 131,905
Fees, sponsorships and other income	1,684,990	-	-	1,684,990	1,630,744
Net assets released from restriction	<u>13,288</u>	<u>(13,288)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,827,832</u>	<u>(7,340)</u>	<u>-</u>	<u>1,820,492</u>	<u>1,762,649</u>
Expenses:					
Programs	1,552,731	-	-	1,552,731	1,502,174
Management and administration	145,147	-	-	145,147	153,032
Fundraising	<u>91,089</u>	<u>-</u>	<u>-</u>	<u>91,089</u>	<u>92,748</u>
Total expenses	<u>1,788,967</u>	<u>-</u>	<u>-</u>	<u>1,788,967</u>	<u>1,747,954</u>
Change in net assets from operations	38,865	(7,340)	-	31,525	14,695
Other changes:					
Provision for income tax	(300)	-	-	(300)	(300)
Net investment income	<u>399</u>	<u>-</u>	<u>-</u>	<u>399</u>	<u>1,045</u>
Change in net assets	38,964	(7,340)	-	31,624	15,440
Net assets, beginning of the year	<u>935,154</u>	<u>58,073</u>	<u>-</u>	<u>993,227</u>	<u>977,787</u>
Net assets, end of the year	<u>\$ 974,118</u>	<u>\$ 50,733</u>	<u>\$ -</u>	<u>\$ 1,024,851</u>	<u>\$ 993,227</u>

See accompanying notes and independent auditors' report.

American Morgan Horse Educational Charitable Trust

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 31,624	\$ 15,440
Adjustments to reconcile change in net assets to net cash provided for operating activities:		
Depreciation and amortization	4,908	4,663
(Increase) decrease in accounts receivable	(4,508)	4,455
(Increase) decrease in prepaid expenses	2,441	(1,942)
Increase in accounts payable	4,680	14,028
Increase in due to the American Morgan Horse Association	<u>6,976</u>	<u>2,753</u>
Total adjustments	<u>14,497</u>	<u>23,957</u>
Net cash provided for operating activities	<u>46,121</u>	<u>39,397</u>
Cash flows from investing activities:		
Acquisition of equipment	<u>(4,476)</u>	<u>(6,015)</u>
Net increase in cash and cash equivalents	41,645	33,382
Cash and cash equivalents, beginning of year	<u>875,474</u>	<u>842,092</u>
Cash and cash equivalents, end of year	<u>\$ 917,119</u>	<u>\$ 875,474</u>

See accompanying notes and independent auditors' report.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

(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 three classes of net assets; unrestricted, temporarily restricted and permanently restricted net assets. The Trust is also required to present a statement of cash flows.

(c) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions.

Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. Restricted contributions whose restrictions are met in the same period as received are reported as unrestricted contributions.

(d) Property and Equipment

Equipment 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.

(e) 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.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

Summary of Significant Accounting Policies (continued)

(f) 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.

(g) 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.

(h) Functional Allocation of Expenses

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

(i) 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.

(j) 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, 2014.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

Summary of Significant Accounting Policies (continued)

(k) 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, 2016 from which the summarized information was derived.

(l) Recently Issued Accounting Standards

In August 2016, the FASB issued 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.

The new standard is effective for the Trust for fiscal years beginning after December 15, 2017. The Trust will implement the provisions of ASU 2016-14 as of January 1, 2018.

(m) Subsequent Events

The Trust evaluated subsequent events through June 15, 2018, the date the Trust's financial statements were available to be issued and all such events or transactions have been properly disclosed.

(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 \$1,770 and \$2,024 for the years ended December 31, 2017 and 2016, respectively.

(3) Leases

The Trust occupies office space under a lease expiring in June 2018 with rent of \$375 per month. Rent expense was \$3,900 and \$3,400 for the years ended December 31, 2017 and 2016, respectively.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

(4) Commitments

The Trust entered into an agreement with Oklahoma State Fair, Inc. which has been amended and extended through December 31, 2022 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 \$346,330 and \$326,239 for the years ended December 31, 2017 and 2016, respectively. Future minimum contract payments excluding incidentals are as follows:

<u>Year</u>	
2018	\$ 205,000
2019	205,000
2020	205,000
2021	205,000
2022	<u>205,000</u>
	<u>\$ 1,025,000</u>

(5) Equipment

Equipment consists of the following as of December 31st:

	<u>2017</u>	<u>2016</u>
Decorations	\$ 10,915	\$ 7,835
Furniture and fixtures	7,806	7,806
Electronics	3,902	2,506
Equipment	<u>7,000</u>	<u>7,000</u>
Subtotal	29,623	25,147
Less – accumulated depreciation	<u>(17,210)</u>	<u>(12,302)</u>
Equipment, net	<u>\$ 12,413</u>	<u>\$ 12,845</u>

(6) 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 \$26,177 and \$19,201 for the years ended December 31, 2017 and 2016, respectively.

American Morgan Horse Educational Charitable Trust

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(7) Concentration of Cash on Deposit

The Trust has concentrated its credit risk for cash by maintaining deposits in financial institutions that at times 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.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of donations restricted for Morgan Horse youth programs and events.