

American Morgan Horse Educational Charitable Trust

Financial Statements
(With Independent Auditors' Report)

For the Years Ended December 31, 2023 and 2022

American Morgan Horse Educational Charitable Trust

December 31, 2023 and 2022

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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 in liquidation as of December 31, 2023, and the related statements of activities in liquidation, functional expenses in liquidation and cash flows in liquidation 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, 2023, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Trust is in the process of dissolving this 501(c)(3) Trust and forming a new 501(c)(3) corporation called The Morgan Horse Foundation (the "Foundation"). Additionally, the Foundation will have a subsidiary called The Morgan Grand National, LLC. This is expected to be completed by the end of 2024. As a result, the Trust changed its basis of accounting from the going concern basis to liquidation basis. Our opinion is not modified with respect to that matter.

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.

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.

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 2022 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated May 1, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McSoley McCoy & Co.

April 12, 2024
South Burlington, Vermont
VT Reg. No. 92-349

American Morgan Horse Educational Charitable Trust
Statements of Financial Position in Liquidation
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,815,877	\$ 1,738,589
Accounts receivable, net of allowance for credit losses of \$5,125 as of December 31, 2023 and 2022	126,334	87,366
Prepaid expenses	27,630	18,727
Total current assets	1,969,841	1,844,682
Equipment, net of accumulated depreciation	-	2,770
Total assets	\$ 1,969,841	\$ 1,847,452
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 32,308	\$ 39,072
Due to the American Morgan Horse Association	3,564	-
Total liabilities	35,872	39,072
Net assets:		
Without donor restrictions	1,613,182	1,606,092
Without donor restrictions - contingency reserve	33,465	33,465
With donor restrictions	287,322	168,823
Total net assets	1,933,969	1,808,380
Total liabilities and net assets	\$ 1,969,841	\$ 1,847,452

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statement of Activities in Liquidation
For the Year Ended December 31, 2023
(With Summarized Information for the Year Ended December 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	(summarized) 2022 Total
Revenue and support:				
Contributions, grants and auctions	\$ 270,742	\$ 171,273	\$ 442,015	\$ 215,956
Fees, sponsorships and other income	2,198,219	-	2,198,219	2,139,474
Net assets released from restriction	<u>52,774</u>	<u>(52,774)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>2,521,735</u>	<u>118,499</u>	<u>2,640,234</u>	<u>2,355,430</u>
Expenses:				
Program services	2,129,444	-	2,129,444	1,913,496
Management and general	229,207	-	229,207	213,618
Fundraising	<u>198,843</u>	<u>-</u>	<u>198,843</u>	<u>138,605</u>
Total expenses	<u>2,557,494</u>	<u>-</u>	<u>2,557,494</u>	<u>2,265,719</u>
Change in net assets from operations	<u>(35,759)</u>	<u>118,499</u>	<u>82,740</u>	<u>89,711</u>
Other changes:				
Provision for income tax	-	-	-	(874)
Interest income	<u>42,849</u>	<u>-</u>	<u>42,849</u>	<u>1,151</u>
Other changes	<u>42,849</u>	<u>-</u>	<u>42,849</u>	<u>277</u>
Change in net assets	7,090	118,499	125,589	89,988
Net assets, beginning of the year	<u>1,639,557</u>	<u>168,823</u>	<u>1,808,380</u>	<u>1,718,392</u>
Net assets, end of the year	<u>\$ 1,646,647</u>	<u>\$ 287,322</u>	<u>\$ 1,933,969</u>	<u>\$ 1,808,380</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statement of Functional Expenses in Liquidation
For the Year Ended December 31, 2023
(With Summarized Information for the Year Ended December 31, 2022)

	<u>Supporting Services</u>				(summarized)	
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>2023 Total</u>	<u>2022 Total</u>
Accounting	\$ -	\$ -	\$ 12,970	\$ 12,970	\$ 12,970	\$ 19,966
Advertising and promotions	14,675	198,843	1,785	200,628	215,303	157,386
Awards	232,618	-	-	-	232,618	245,063
Bank and credit card fees	-	-	45,206	45,206	45,206	46,052
Computer	-	-	740	740	740	1,638
Depreciation	-	-	2,770	2,770	2,770	2,770
Donations and grants	123,702	-	-	-	123,702	42,229
Equipment expenses	14,061	-	-	-	14,061	11,359
Event expenses	241,336	-	-	-	241,336	240,245
Facility fee	364,983	-	-	-	364,983	329,942
Food and beverages	67,579	-	7,255	7,255	74,834	29,572
Footing	25,418	-	-	-	25,418	14,550
Furniture rental	4,740	-	-	-	4,740	4,161
In-kind	49,253	-	-	-	49,253	57,371
Insurance	-	-	7,377	7,377	7,377	6,939
Legal	-	-	37,905	37,905	37,905	4,309
Meetings	-	-	7,326	7,326	7,326	7,746
Merchandise	26,031	-	-	-	26,031	75,049
Miscellaneous	440	-	-	-	440	8,643
Office expenses	-	-	10,561	10,561	10,561	13,988
Printing	8,978	-	5,047	5,047	14,025	9,740
Postage	-	-	2,661	2,661	2,661	1,813
Registration fees	23,925	-	5,783	5,783	29,708	34,440
Salaries and wages	143,028	-	67,359	67,359	210,387	218,134
Scholarships	8,000	-	-	-	8,000	14,750
Security	41,720	-	-	-	41,720	31,751
Stallion service auction	64,792	-	-	-	64,792	54,875
Storage	-	-	8,296	8,296	8,296	7,318
Subcontracting	393,348	-	-	-	393,348	310,494
Subscription and license fees	85,000	-	4,951	4,951	89,951	74,299
Telephone	-	-	1,215	1,215	1,215	1,167
Travel	180,317	-	-	-	180,317	156,306
Youth expenses	15,500	-	-	-	15,500	31,654
Totals	<u>\$ 2,129,444</u>	<u>\$ 198,843</u>	<u>\$ 229,207</u>	<u>\$ 428,050</u>	<u>\$ 2,557,494</u>	<u>\$ 2,265,719</u>

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust
Statements of Cash Flows in Liquidation
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 125,589	\$ 89,988
Adjustments to reconcile change in net assets to net cash provided for operating activities:		
Depreciation	2,770	2,770
Increase (decrease) in accounts receivable	(38,968)	9,285
Increase (decrease) in prepaid expenses	(8,903)	54,198
Decrease in accounts payable and accrued expenses	(6,764)	(16,876)
Increase in due to the American Morgan Horse Association	3,564	13,564
Total adjustments	(48,301)	62,941
Net cash provided for operating activities	77,288	152,929
Cash and cash equivalents, beginning of year	1,738,589	1,585,660
Cash and cash equivalents, end of year	\$ 1,815,877	\$ 1,738,589
Supplemental disclosures of cash flow information:		
Cash paid during the years for:		
Income taxes	\$ -	\$ (397)

See accompanying notes to the financial statements.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

(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’s (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 is in the process of dissolving this 501(c)(3) Trust and forming a new 501(c)(3) corporation called The Morgan Horse Foundation (the “Foundation”). Additionally, the Foundation will have a subsidiary called The Morgan Grand National, LLC. This is expected to be completed by the end of 2024.

The following summarizes the Trust’s significant accounting policies:

(a) Method of Accounting

The accompanying financial statements have been prepared using the liquidation 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 or net assets without donor restrictions. The Trust is also required to present the 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, 2023 and 2022

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 in liquidation 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 and a useful life of more than one year.

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 in liquidation, 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

On January 1, 2023, the Trust adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Trust adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Trust's financial statements but did change how the allowance for credit losses is determined.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

Summary of Significant Accounting Policies (continued)

The Trust's primary allowance for credit losses is the allowance for uncollectible accounts (\$5,125 at December 31, 2023 and 2022). The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Management uses judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Accounts receivable balances are written off against the allowance if a final determination of collectability is made.

The balance for accounts receivable, net was \$126,334, \$87,366 and \$96,651 as of December 31, 2023, December 31, 2022, and January 1, 2022, respectively.

(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 in liquidation 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 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, 2020.

(l) Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended December 31, 2022 from which the summarized information was derived.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

Summary of Significant Accounting Policies (continued)

(m) Corporate Sponsorships

The Trust receives corporate sponsorships for the annual Grand National & World Championship Morgan Horse Show in the form of cash and products. Both cash and products from corporate sponsorships are recognized as contributions. Sponsorship agreements are exchange transactions and are recognized when received and not as a promise to give when the agreements are entered into. The value of the product received is presented in the financial statements at their estimated fair value as both income and in-kind expense.

(n) Subsequent Events

The Trust evaluated subsequent events through April 12, 2024, 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 \$406,703 and \$361,693 for the years ended December 31, 2023 and 2022, respectively. Future minimum contract payments excluding incidentals are as follows:

<u>Year</u>	
2024	\$ 225,500
2025	225,500
2026	225,500
2027	<u>225,500</u>
	<u>\$ 902,000</u>

(3) Equipment

Equipment consists of the following as of December 31st:

	<u>2023</u>	<u>2022</u>
Decorations	\$ 24,766	\$ 24,766
Furniture and fixtures	7,806	7,806
Electronics	<u>2,506</u>	<u>3,902</u>
Subtotal	35,078	36,474
Less – accumulated depreciation	<u>(35,078)</u>	<u>(33,704)</u>
Equipment, net	<u>\$ -</u>	<u>\$ 2,770</u>

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

Equipment (continued)

Depreciation expense amounted to \$2,770 for each of the years ending December 31, 2023 and 2022.

(4) Related Party Transactions

Effective November 1, 2022, a new five year licensing agreement was signed where the Trust will pay the Association \$85,000 annually in connection with its staging of the annual Grand Nation & World Championship Morgan Horse Show. Previously, the licensing agreement was for \$65,000 annually.

The Association signed a five year memorandum of understanding with the Trust effective February 1, 2021 where the Trust will pay the Association an annual payment of \$12,000 to cover a portion of the Executive Director's salary, office rental expenses, and utilities.

In addition, the Association received various grants from the Trust totaling \$131,705 and \$89,918 for the years ending December 31, 2023 and 2022, respectively.

The Trust owes or is due various amounts to the Association for sponsorships, youth program funding, expense reimbursements, and fund withdrawals. Amounts due to the Association were \$3,564 and \$0 at December 31, 2023 and 2022, 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) 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.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

(7) Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Van Schaik	\$ 5,656	\$ 6,655
YAA Judges Scholarship	24,309	21,907
Medal Scholarship	12,034	10,032
Sebring Fund	11,972	4,817
Youth Council	4,634	5,977
DiBella Scholarship	18,809	19,006
Honstein Fund	-	1,622
Boyce Bender Scholarship	28,148	30,475
Judges Education Fund	38,334	13,327
Hill Scholarship	13,284	15,781
Education Grants	-	26,849
Dollars for DNA	12,409	12,375
Alex Mooney Scholarship	32,731	-
Kohler Scholarship	75,002	-
James Shields Youth Grant	<u>10,000</u>	<u>-</u>
 Total	 <u>\$ 287,322</u>	 <u>\$ 168,823</u>

(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 statements of financial position in liquidation date, comprise the following as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,815,877	\$ 1,738,589
Accounts receivable	<u>126,334</u>	<u>87,366</u>
Total	1,942,211	1,825,955
Less amounts not readily available to meet general expenditures:		
Net assets with donor restrictions	(287,322)	(168,823)
Contingency reserve	<u>(33,465)</u>	<u>(33,465)</u>
Total	<u>\$ 1,621,424</u>	<u>\$ 1,623,667</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.

American Morgan Horse Educational Charitable Trust

Notes to Financial Statements

December 31, 2023 and 2022

Liquidity and Availability (continued)

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.