KENTUCKY HORSE PARK FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED MAY 31, 2018

HICKS & ASSOCIATES CPAS
CERTIFIED PUBLIC ACCOUNTANTS
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Board of Directors
Kentucky Horse Park Foundation, Inc.
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky Horse Park Foundation, Inc. (the "Foundation") (a nonprofit organization), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities and changes in net assets 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 from 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors consider 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 Foundation as of May 31, 2018, 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.
Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Foundation's internal control over financial reporting and compliance.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of general and administrative expenses and the Southern Lights income statement on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hicks & Associates CPAs

October 5, 2018
KENTUCKY HORSE PARK FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION 
MAY 31, 2018

**ASSETS**

**CURRENT ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$991,020</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>11,355</td>
</tr>
<tr>
<td>Unconditional promises to give</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>$1,020,375</td>
</tr>
</tbody>
</table>

**OTHER ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and cash</td>
<td>1,592,951</td>
</tr>
<tr>
<td>Investments held for charitable gift annuity</td>
<td>176,342</td>
</tr>
<tr>
<td>Investments held for endowment purposes</td>
<td>6,183,408</td>
</tr>
<tr>
<td><strong>TOTAL OTHER ASSETS</strong></td>
<td>7,952,701</td>
</tr>
</tbody>
</table>

**PROPERTY AND EQUIPMENT, NET**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>192,360</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,165,436</td>
</tr>
</tbody>
</table>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$91,014</td>
</tr>
<tr>
<td>Annuity liability</td>
<td>58,008</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>43,900</td>
</tr>
<tr>
<td>Other accrued payables</td>
<td>2,609</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td>195,531</td>
</tr>
</tbody>
</table>

**NET ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted:</td>
<td></td>
</tr>
<tr>
<td>Undesignated</td>
<td>1,017,204</td>
</tr>
<tr>
<td>Designated</td>
<td>5,455,145</td>
</tr>
<tr>
<td><strong>TOTAL UNRESTRICTED NET ASSETS</strong></td>
<td>6,472,349</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>1,349,972</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>1,147,584</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td>8,969,905</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET ASSETS**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,165,436</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.  5
**KENTUCKY HORSE PARK FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED MAY 31, 2018**

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>PERMANENTLY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES AND OTHER SUPPORT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$826,773</td>
<td>$154,926</td>
<td>$</td>
<td>$981,699</td>
</tr>
<tr>
<td>Southern Lights</td>
<td>722,517</td>
<td>-</td>
<td>-</td>
<td>722,517</td>
</tr>
<tr>
<td>Other revenue</td>
<td>142,162</td>
<td>-</td>
<td>-</td>
<td>142,162</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>108,048</td>
<td>-</td>
<td>-</td>
<td>108,048</td>
</tr>
<tr>
<td>Net assets released from restrictions due to satisfaction of program requirements</td>
<td>84,735</td>
<td>(84,735)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES AND OTHER SUPPORT</strong></td>
<td>1,884,235</td>
<td>70,191</td>
<td>-</td>
<td>1,954,426</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support to Kentucky Horse Park</td>
<td>776,933</td>
<td>-</td>
<td>-</td>
<td>776,933</td>
</tr>
<tr>
<td>General and administrative</td>
<td>264,453</td>
<td>-</td>
<td>-</td>
<td>264,453</td>
</tr>
<tr>
<td>Fundraising</td>
<td>546,494</td>
<td>-</td>
<td>-</td>
<td>546,494</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>1,587,880</td>
<td>-</td>
<td>-</td>
<td>1,587,880</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CHANGES IN NET ASSETS FROM OPERATIONS</strong></td>
<td>296,355</td>
<td>70,191</td>
<td>-</td>
<td>366,546</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OTHER CHANGES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuity liability adjustment</td>
<td>14,566</td>
<td>-</td>
<td>-</td>
<td>14,566</td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>620,851</td>
<td>223,916</td>
<td>-</td>
<td>844,767</td>
</tr>
<tr>
<td><strong>TOTAL OTHER CHANGES</strong></td>
<td>635,417</td>
<td>223,916</td>
<td>-</td>
<td>859,333</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CHANGES IN NET ASSETS</strong></td>
<td>931,772</td>
<td>294,107</td>
<td>-</td>
<td>1,225,879</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS, BEGINNING OF YEAR</strong></td>
<td>5,540,577</td>
<td>1,055,865</td>
<td>1,147,584</td>
<td>7,744,026</td>
</tr>
<tr>
<td><strong>NET ASSETS, END OF YEAR</strong></td>
<td>$6,472,349</td>
<td>$1,349,972</td>
<td>$1,147,584</td>
<td>$8,969,905</td>
</tr>
</tbody>
</table>

*See Notes to Financial Statements.*
KENTUCKY HORSE PARK FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED MAY 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets from operations $366,546
Adjustments to reconcile changes in net assets from operations to net change from operating activities:

- Temporarily restricted contributions (154,926)
- Interest earned on cash and cash equivalents 1,372
- Investment fees 49,738
- Depreciation 33,450
- In-kind expenses 108,048
- In-kind contributions (108,048)

Changes in operating assets and liabilities:

- (Increase) decrease in other receivables 35,000
- (Increase) decrease in prepaid expenses 4,269
- (Increase) decrease in unconditional promises to give (3,000)
- Increase (decrease) in accounts payable 91,014
- Increase (decrease) in annuity liability (14,566)
- Increase (decrease) in deferred revenue (11,600)
- Increase (decrease) in other accrued payables 1,655

NET CHANGE FROM OPERATING ACTIVITIES 398,952

CASH FLOWS FROM INVESTING ACTIVITIES

- Net assets released from restrictions 84,735
- Net contributions to investments (333,865)
- Purchases of property and equipment (46,632)

NET CHANGE FROM INVESTING ACTIVITIES (295,762)

CASH FLOWS FROM FINANCING ACTIVITIES

- Payments from annuity liability (7,002)

NET CHANGE FROM FINANCING ACTIVITIES (7,002)

NET CHANGE IN CASH AND CASH EQUIVALENTS 96,188

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 894,832

CASH AND CASH EQUIVALENTS, END OF YEAR $991,020

See Notes to Financial Statements.
NOTE A - NATURE OF OPERATIONS

The Kentucky Horse Park Foundation, Inc. (the "Foundation") was founded in 1985 as a not-for-profit organization created to provide financial and other support exclusively for the Kentucky Horse Park. The Foundation is operated solely for the benefit of the Kentucky Horse Park, a public corporation established by the Commonwealth of Kentucky under KRS 148.260-148.320 and a Division of the Commerce Cabinet of the Commonwealth of Kentucky.

The Foundation is a component unit of the Kentucky Horse Park and the financial statements are included in the Kentucky Horse Park's basic financial statements as a discretely presented component unit.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accounting 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 reported period. Actual results could differ from those estimates.

Donor-Imposed Restrictions

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Permanently restricted net assets are limited as to use by donor-imposed stipulations that do not expire with the passage of time and cannot be removed by the Foundation's actions.

Cash and Cash Equivalents

The Foundation considers all unrestricted, undesignated highly liquid investments with a maturity of three months or less to be cash and cash equivalents. The Foundation typically maintains cash on deposit at banks in excess of the federally insured limits.

Property and Equipment

Property and equipment are recorded at cost if purchased, or fair value on the date of the gift, if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the asset, which range from 5 to 30 years. The cost of repairs and maintenance is expensed as incurred. Depreciation expense for the year ended May 31, 2018 was $33,450.

Advertising

The Foundation expenses advertising costs as incurred. Advertising expense was $57,895 for the year ended May 31, 2018.
NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences

Employees of the Foundation are entitled to paid compensated absences, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities and changes in net assets.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investments in the near term would materially affect the amounts reported in the statements of financial position and activities and changes in net assets.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It is, however, subject to income taxes on "unrelated business income", of which management has determined there was none for the year ended May 31, 2018. The Foundation also qualifies for the charitable contribution deduction under Section 107(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

As of May 31, 2018, the Foundation has no uncertain tax positions that qualify for disclosure in the financial statements. Tax years still open under federal and state statute of limitations remain subject to review and change.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenues in the period when the pledge is received. The Foundation’s unconditional promises to give are net of an allowance for uncollectible promises to give at year-end. The allowance for uncollectible promises to give is provided based on management's judgment, including factors such as prior collection history, type of pledge and nature of fundraising activity. The Foundation has an allowance for uncollectible promises of $0 as of May 31, 2018.

If amounts become uncollectible, they will be charged to operations when that determination is made. If amounts previously written off are collected, they will be credited to the allowance for doubtful accounts when received.

Deferred Revenue

Deferred revenue represents revenue collected but not earned. This is composed of revenue for sponsorships of the Southern Lights and other exhibits. This revenue will be earned once the exhibits are concluded.
NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Annuity Liability

The Foundation pays stipulated amounts periodically to an individual (annuitant) who has given the Foundation certain assets who has entered into an agreement that such payments cease at the death of the annuitant. Total annuity payments for the year ended May 31, 2018 were $7,002.

The annuity liability balance is the present value of the monthly payments to the annuitant based on the life expectancy of the annuitant and the interest rate of 7.2% as of May 31, 2018.

Contributions

Contributions are defined as voluntary, non-reciprocal transfers. Unrestricted contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. The Foundation’s policy is to present temporarily restricted net assets received during the year whose restrictions are also met during the year as unrestricted net assets.

NOTE C – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, due in one year, at May 31, 2018 are as follows:

<table>
<thead>
<tr>
<th>Gross unconditional promises to give:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nina Bonnie board designated endowment</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Other unrestricted</td>
<td>13,000</td>
</tr>
</tbody>
</table>

Total gross unconditional promises to give $18,000

NOTE D – INVESTMENTS

The ASC has established a single definition of fair value and a framework for measuring fair value under GAAP that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value.

These regulations also establish a fair value hierarchy which requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and gives the lowest priority to unobservable inputs (level 3 measurements).
NOTE D – INVESTMENTS – CONTINUED

The following provides a description of the three levels of inputs that may be used to measure fair value under GAAP.

Level 1 – Quoted prices available in active markets for identical investments as of the reporting date.

Level 2 – Significant other observable inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

Level 3 – Significant unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The Foundation uses the following methods and assumptions in estimating the fair value of its investments. There were no changes in the methodologies used to measure fair value during the year ended May 31, 2018.

Cash and cash equivalents: The carrying amount reported in the statement of financial position for such items is either fair value or approximate fair value, due to their short-term nature.

U.S. government bonds, mutual funds and common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate and municipal bonds: Management obtains pricing information from a reputable third-party service provider, who utilizes valuation techniques that use current market-based or independently sourced parameters, such as bid prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, and credit spreads.

Private equity funds: Fair values are based on valuations determined by the investment managers using Net Asset Values as of their most recent statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss.

Fair value measurements, all of which are considered Level 1, of the Foundation at May 31, 2018 are summarized below:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Cost</th>
<th>Unrealized Gain/(Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$73,526</td>
<td>$73,526</td>
<td>$</td>
</tr>
<tr>
<td>U.S. government bonds</td>
<td>291,018</td>
<td>351,834</td>
<td>(60,816)</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1,747,173</td>
<td>1,782,158</td>
<td>(34,985)</td>
</tr>
<tr>
<td>Common stock</td>
<td>5,378,036</td>
<td>4,028,265</td>
<td>1,349,771</td>
</tr>
<tr>
<td>Total</td>
<td>$7,489,753</td>
<td>$6,235,783</td>
<td>$1,253,970</td>
</tr>
</tbody>
</table>

Investment income (loss) is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$94,902</td>
<td>$40,123</td>
<td>$135,025</td>
</tr>
<tr>
<td>Realized and unrealized</td>
<td>522,757</td>
<td>183,793</td>
<td>706,550</td>
</tr>
<tr>
<td>Total investment income (loss)</td>
<td>$617,659</td>
<td>$223,916</td>
<td>$841,575</td>
</tr>
</tbody>
</table>

11
NOTE E – ENDOWMENT FUNDS

The Foundation’s endowments consist of both donor-restricted endowment funds and funds designated by the Board as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds. As such, the Foundation is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds.

Interpretation of Relevant Law

Management of the Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds; absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets the original value of gifts donated to the Dr. Donald L. Jacobs Endowment and the W. Paul Little Cultural and Learning Endowments and accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

During 2009 the Foundation adopted an investment and spending policy which states the following: The investment mission of the Foundation is to provide a growing resource of funds available to expand and enhance the Kentucky Horse Park. The annual distributions are to be relatively consistent and predictable. Spending, in addition to budgeting operating expenses, is calculated at a maximum of 4.5% of the previous year’s 12-month average of the Fund’s market value. In order to meet the investment mission of the Foundation the investment strategy is to emphasize total return; that is the aggregate return from capital appreciation and dividend and interest income.

Endowment net asset composition by type of fund as of May 31, 2018:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor restricted endowment funds</td>
<td>$ 5,388,775</td>
<td>$ 953,394</td>
<td>$ 1,147,584</td>
<td>$ 2,100,978</td>
</tr>
<tr>
<td>Board-designated endowment funds</td>
<td>$ 5,388,775</td>
<td>$ 953,394</td>
<td>$ 1,147,584</td>
<td>$ 7,489,753</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended May 31, 2018:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, Beginning of the year</td>
<td>$ 4,454,963</td>
<td>$ 739,568</td>
<td>$ 1,147,584</td>
<td>$ 6,342,115</td>
</tr>
<tr>
<td>Investment income</td>
<td>94,902</td>
<td>40,123</td>
<td>-</td>
<td>135,025</td>
</tr>
<tr>
<td>Unrealized and realized loss</td>
<td>522,757</td>
<td>183,793</td>
<td>-</td>
<td>706,550</td>
</tr>
<tr>
<td>Contributions</td>
<td>548,993</td>
<td>4,436</td>
<td>-</td>
<td>553,429</td>
</tr>
<tr>
<td>Appropriated for expenditure</td>
<td>(232,840)</td>
<td>(14,526)</td>
<td>-</td>
<td>(247,366)</td>
</tr>
<tr>
<td>Balance at May 31, 2018</td>
<td>$ 5,388,775</td>
<td>$ 953,394</td>
<td>$ 1,147,584</td>
<td>$ 7,489,753</td>
</tr>
</tbody>
</table>
NOTE F – PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2018 consist of the following components:

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building improvements</td>
<td>$16,495</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>56,182</td>
</tr>
<tr>
<td>Southern Lights</td>
<td>1,414,970</td>
</tr>
<tr>
<td>Total property and equipment</td>
<td>1,487,647</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(1,295,287)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$192,360</td>
</tr>
</tbody>
</table>

NOTE G – NOTE PAYABLE

On June 5, 2009, the Foundation entered into a revolving note agreement with a bank for borrowings up to $800,000. As of May 31, 2018, this note bears interest at the institution’s “Prime Rate” plus 1.00%. The note was renewed through October 2018. The note is secured by the Foundation’s cash accounts, receivables, barn and endowment pledges, as well as certain other assets of the Foundation. As of May 31, 2018, the outstanding balance on this note was $0.

NOTE H – UNRESTRICTED, DESIGNATED NET ASSETS

In addition to the unrestricted, designated endowments, the Foundation has set aside designated monies of $66,370 as of May 31, 2018. Total unrestricted, designated net assets are $5,455,145 as of May 31, 2018.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31, 2018 are available for the following purposes:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American Exhibit</td>
<td>$42</td>
</tr>
<tr>
<td>Campground</td>
<td>8,434</td>
</tr>
<tr>
<td>Cigar Statue</td>
<td>95</td>
</tr>
<tr>
<td>Dedicated Horse Path – Fund and Pledge</td>
<td>56,853</td>
</tr>
<tr>
<td>Draft Horse</td>
<td>8,310</td>
</tr>
<tr>
<td>Dressage Complex</td>
<td>55,947</td>
</tr>
<tr>
<td>Fisk Fund</td>
<td>100</td>
</tr>
<tr>
<td>Golf Cart Fund</td>
<td>713</td>
</tr>
<tr>
<td>Hall of Champions</td>
<td>16,969</td>
</tr>
<tr>
<td>Horses of the World</td>
<td>1,175</td>
</tr>
<tr>
<td>Invisible Ink</td>
<td>200</td>
</tr>
<tr>
<td>Jackson Fund</td>
<td>2,071</td>
</tr>
<tr>
<td>Jacobs Endowment</td>
<td>192,763</td>
</tr>
<tr>
<td>KHPLP</td>
<td>18,527</td>
</tr>
<tr>
<td>Leave a Legacy</td>
<td>2,850</td>
</tr>
<tr>
<td>Little Endowment</td>
<td>760,631</td>
</tr>
<tr>
<td>Man O’ War Statue</td>
<td>1,922</td>
</tr>
<tr>
<td>Memorial Garden</td>
<td>62</td>
</tr>
<tr>
<td>Mounted Police</td>
<td>9,776</td>
</tr>
<tr>
<td>Mustang Troop</td>
<td>49,462</td>
</tr>
<tr>
<td>National Horse Show – Museum</td>
<td>1,559</td>
</tr>
<tr>
<td>Native Plants</td>
<td>520</td>
</tr>
<tr>
<td>Purebred Arabian Trust</td>
<td>55,466</td>
</tr>
<tr>
<td>Robert Murphy Memorial</td>
<td>5,525</td>
</tr>
<tr>
<td>Steffee Fund</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,349,972</strong></td>
</tr>
</tbody>
</table>

13
NOTE J - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the W. Paul Little Cultural and Learning Endowment and the Dr. Donald L. Jacobs Endowment. The endowments have been established in the amount of $1,000,000 and $147,584. Income derived from the principal is to be used as support for projects and programs of the International Museum of the Horse and the Kentucky Horse Park Education Department.

NOTE K - DONATED SERVICES

No amounts have been recorded in the statements for volunteer donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Foundation’s program services and to its fundraising events.

NOTE L - OPERATING LEASE

During the year ended May 31, 2017, the Foundation entered into a lease agreement with The United States Pony Clubs, Inc. to lease office space. The agreement is a two year lease that began on April 1, 2017 and will end on March 31, 2019. Payments of $2,232 are due monthly.

Future lease obligations of the Foundation are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 22,320</td>
</tr>
</tbody>
</table>

NOTE M - RELATED PARTY TRANSACTIONS

During the year ended May 31, 2018, the Foundation made the following disbursements to the Kentucky Horse Park:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIM Museum</td>
<td>$12,141</td>
</tr>
<tr>
<td>Dedicated Horse Path</td>
<td>9,365</td>
</tr>
<tr>
<td>In-Kind</td>
<td>87,715</td>
</tr>
<tr>
<td>International Museum of the Horse</td>
<td>63,371</td>
</tr>
<tr>
<td>KHP Equine Operations</td>
<td>3,744</td>
</tr>
<tr>
<td>KHP Literacy/Field Trip Project</td>
<td>10,702</td>
</tr>
<tr>
<td>Mounted Police</td>
<td>1,050</td>
</tr>
<tr>
<td>Mustang/Equine Troop</td>
<td>22,081</td>
</tr>
<tr>
<td>Park Projects</td>
<td>501,999</td>
</tr>
<tr>
<td>Volunteers</td>
<td>44,765</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$776,933</strong></td>
</tr>
</tbody>
</table>

The Foundation leases property (Southern Lights) from the Kentucky Horse Park from November through December of each year. This lease is renewed annually. The Kentucky Horse Park charged the Foundation rent of $38,825 for the fiscal year ended May 31, 2018.

The Foundation and the Kentucky Horse Park accept advertising on their websites. The Foundation collects receipts related to the sale of these advertisements and uses the funds in support of the Kentucky Horse Park. As of May 31, 2018, the Foundation collected $2,015 related to the sale of these advertisements and has been recognized as other revenue in the statement of activities and changes in net assets.
NOTE N - NET ASSETS RESTATEMENT

For the year ended May 31, 2017, management of the Foundation determined that there were unrestricted, designated net assets that were classified as temporarily restricted net assets. The following net asset restatement was made at May 31, 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted net assets, May 31, 2017</td>
<td>$1,134,770</td>
</tr>
<tr>
<td>Net asset restatement</td>
<td>$(78,905)</td>
</tr>
<tr>
<td>Restated temporarily restricted net assets, May 31, 2017</td>
<td>$1,055,865</td>
</tr>
</tbody>
</table>

NOTE O - SUBSEQUENT EVENT

Starting June 1, 2018, Southern Lights Management, LLC, was set up as a disregarded LLC of the Foundation. The purpose of the LLC shall be to conduct the Southern Lights fundraising event at and for the benefit of the Kentucky Horse Park and to transact any other lawful business. Transfers totaling $100,000 were sent from the operating bank account to the LLC bank account as seed money for the 2018 Southern Lights fundraising event.

NOTE P - DATE OF MANAGEMENT'S REVIEW

The Foundation's subsequent events have been evaluated by management through October 5, 2018, which is the date the financial statements were available to be issued.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank charges</td>
<td>$1,200</td>
</tr>
<tr>
<td>Contract labor</td>
<td>3,200</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,172</td>
</tr>
<tr>
<td>Dues and fees - operating</td>
<td>958</td>
</tr>
<tr>
<td>Insurance</td>
<td>23,885</td>
</tr>
<tr>
<td>Meals and entertainment - operating</td>
<td>145</td>
</tr>
<tr>
<td>Meetings</td>
<td>730</td>
</tr>
<tr>
<td>Office equipment</td>
<td>1,816</td>
</tr>
<tr>
<td>Office supplies - operating</td>
<td>2,339</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>120</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>11,795</td>
</tr>
<tr>
<td>Postage and freight</td>
<td>741</td>
</tr>
<tr>
<td>Printing - operating</td>
<td>882</td>
</tr>
<tr>
<td>Professional fees</td>
<td>13,750</td>
</tr>
<tr>
<td>Rentals - operating</td>
<td>26,784</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>169,028</td>
</tr>
<tr>
<td>Technology</td>
<td>879</td>
</tr>
<tr>
<td>Telephone</td>
<td>3,399</td>
</tr>
<tr>
<td>Travel</td>
<td>23</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,607</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$264,453</strong></td>
</tr>
</tbody>
</table>
**Revenues:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other income</td>
<td>$12,797</td>
</tr>
<tr>
<td>Santa photos</td>
<td>38,263</td>
</tr>
<tr>
<td>Sponsorships</td>
<td>47,500</td>
</tr>
<tr>
<td>Stroll</td>
<td>55,667</td>
</tr>
<tr>
<td>Ticket sales</td>
<td>553,640</td>
</tr>
<tr>
<td>Vendor booths</td>
<td>14,650</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>722,517</strong></td>
</tr>
</tbody>
</table>

**Expenses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and promotion</td>
<td>55,000</td>
</tr>
<tr>
<td>Bank charges</td>
<td>4,004</td>
</tr>
<tr>
<td>Bluegrass railway</td>
<td>2,500</td>
</tr>
<tr>
<td>Cash transit service</td>
<td>6,152</td>
</tr>
<tr>
<td>Contract labor</td>
<td>25,384</td>
</tr>
<tr>
<td>Decorations</td>
<td>1,032</td>
</tr>
<tr>
<td>Depreciation</td>
<td>32,278</td>
</tr>
<tr>
<td>Insurance</td>
<td>14,000</td>
</tr>
<tr>
<td>Lighting supplies/accessories</td>
<td>16,300</td>
</tr>
<tr>
<td>Mini express train</td>
<td>18,000</td>
</tr>
<tr>
<td>Music/sound</td>
<td>6,800</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>10,811</td>
</tr>
<tr>
<td>Park rental</td>
<td>38,825</td>
</tr>
<tr>
<td>Petting zoo</td>
<td>25,000</td>
</tr>
<tr>
<td>Printing</td>
<td>3,970</td>
</tr>
<tr>
<td>Production costs</td>
<td>118,488</td>
</tr>
<tr>
<td>Santa</td>
<td>25,288</td>
</tr>
<tr>
<td>Security</td>
<td>11,063</td>
</tr>
<tr>
<td>Stroll</td>
<td>19,261</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>434,156</strong></td>
</tr>
</tbody>
</table>

**Net Income**

$288,361
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Kentucky Horse Park Foundation, Inc.
Lexington, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the
United States of America and the standards applicable to financial audits contained in
Government Auditing Standards issued by the Comptroller General of the United States,
the financial statements of Kentucky Horse Park Foundation, Inc. (the "Foundation") (a
nonprofit organization), which comprise the statement of financial position as of May
31, 2018, and the related statements of activities and changes in net assets and cash
flows for the year then ended, and the related notes to the financial statements, and
have issued our report thereon dated October 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the
Foundation’s internal control over financial reporting (internal control) to determine
the audit procedures that are appropriate in the circumstances for the purpose of
expressing our opinion on the financial statements, but not for the purpose of
expressing an opinion on the effectiveness of the Foundation’s internal control.
Accordingly, we do not express an opinion on the effectiveness of the Foundation’s
internal control.

A deficiency in internal control exists when the design or operation of a control does
not allow management or employees, in the normal course of performing their assigned
functions, to prevent, or detect and correct, misstatements on a timely basis. A
material weakness is a deficiency, or combination of deficiencies, in internal control,
such that there is a reasonable possibility that a material misstatement of the
Foundation’s financial statements will not be prevented, or detected and corrected on a
timely basis. A significant deficiency is a deficiency, or a combination of
deficiencies, in internal control that is less severe than a material weakness, yet
important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first
paragraph of this section and was not designed to identify all deficiencies in internal
control that might be material weaknesses or significant deficiencies. Given these
limitations, during our audit we did not identify any deficiencies in internal control
that we consider to be material weaknesses. However, material weaknesses may exist that
have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation’s financial
statements are free from material misstatement, we performed tests of its compliance
with certain provisions of laws, regulations, contracts, and grant agreements,
noncompliance with which could have a direct and material effect on the determination
of financial statement amounts. However, providing an opinion on compliance with those
provisions was not an objective of our audit, and accordingly, we do not express such an
opinion. The results of our tests disclosed no instances of noncompliance or other
matters that are required to be reported under Government Auditing Standards.
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Foundation’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hicks & Associates CPAs*

October 5, 2018