

KENTUCKY HORSE PARK FOUNDATION, INC.
AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED MAY 31, 2021

HICKS & ASSOCIATES CPAS
CERTIFIED PUBLIC ACCOUNTANTS

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Hicks & Associates CPAs

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Kentucky Horse Park Foundation, Inc. (the "Foundation") (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of May 31, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and Subsidiary as of May 31, 2021, 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.

INDEPENDENT AUDITORS' REPORT
- CONTINUED -

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2021, 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 consolidated financial statements as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Hicks & Associates CPAs

Lexington, Kentucky

October 12, 2021

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MAY 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 928,522
Accounts receivable	235,738
Prepaid expenses	<u>17,206</u>

TOTAL CURRENT ASSETS	1,181,466
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OTHER ASSETS

Cash and cash equivalents	193,878
Investments	3,367,119
Investments held for charitable gift annuity	214,493
Investments held for endowment purposes	7,892,627
Unconditional promises to give	<u>35,000</u>

TOTAL OTHER ASSETS	11,703,117
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PROPERTY AND EQUIPMENT, NET	<u>208,772</u>
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TOTAL ASSETS	<u><u>\$ 13,093,355</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 18,722
Annuity liability	76,002
Other accrued payables	<u>410,204</u>
TOTAL CURRENT LIABILITIES	504,928

NET ASSETS

Without donor restrictions:	
Undesignated	885,310
Designated	<u>8,832,552</u>

9,717,862

With donor restrictions	<u>2,870,565</u>
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TOTAL NET ASSETS	<u>12,588,427</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 13,093,355</u></u>
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See Notes to Consolidated Financial Statements.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED MAY 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUES AND OTHER SUPPORT			
Contributions	\$ 751,351	\$ 106,807	\$ 858,158
Events	1,449,653	-	1,449,653
Southern Lights	853,957	-	853,957
Other revenue	232,815	-	232,815
In-kind contributions	29,400	-	29,400
Net assets released from restrictions due to satisfaction of program requirements	448,441	(448,441)	-
TOTAL REVENUES AND OTHER SUPPORT	3,765,617	(341,634)	3,423,983
EXPENSES			
Program	2,840,196	-	2,840,196
General and administrative	242,922	-	242,922
Fundraising	87,304	-	87,304
TOTAL EXPENSES	3,170,422	-	3,170,422
CHANGES IN NET ASSETS FROM OPERATIONS	595,195	(341,634)	253,561
OTHER CHANGES			
Annuity liability adjustment	(2,475)	-	(2,475)
Investment income (loss)	1,560,329	502,100	2,062,429
TOTAL OTHER CHANGES	1,557,854	502,100	2,059,954
TOTAL CHANGES IN NET ASSETS	2,153,049	160,466	2,313,515
NET ASSETS, BEGINNING OF YEAR	7,564,813	2,710,099	10,274,912
NET ASSETS, END OF YEAR	\$ 9,717,862	\$ 2,870,565	\$ 12,588,427

See Notes to Consolidated Financial Statements.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2021

	Support to	Southern Lights	General and	Fundraising	Total
	Kentucky Horse Park		Administrative		
	\$	\$	\$	\$	\$
Advertising and promotion	32,818	69,733	5,676	-	108,227
Bank charges and investment fees	69,956	14,082	4,212	-	88,250
Commissions	-	3,125	-	-	3,125
Contract labor	51,090	39,645	360	-	91,095
Depreciation	38,729	-	-	-	38,729
Dues and fees	-	-	2,124	-	2,124
Event production costs	1,349,010	133,423	-	-	1,482,433
In-kind	29,400	-	-	-	29,400
Insurance	32,434	1,727	10,736	3,233	48,130
Major gift campaign	-	-	884	248	1,132
Miscellaneous	-	1,305	4,937	-	6,242
Office equipment	-	47	9,248	-	9,295
Other park support	135,667	120,817	-	-	256,484
Payroll taxes	14,555	-	6,616	5,292	26,463
Printing	4,308	4,820	2,230	-	11,358
Professional fees	36,683	-	52,808	1,582	91,073
Rentals	9,559	-	3,002	3,414	15,975
Restricted activities	437,728	-	125	-	437,853
Salaries and wages	196,992	-	89,542	71,633	358,167
Signage	1,029	2,285	-	-	3,314
Supplies	-	1,729	10,937	-	12,666
Technology	-	-	29,123	-	29,123
Telephone and internet	-	-	9,206	-	9,206
Training and seminars	1,875	13	625	1,902	4,415
Travel	26	61	31	-	118
Volunteer	5,525	-	500	-	6,025
	<u>\$ 2,447,384</u>	<u>\$ 392,812</u>	<u>\$ 242,922</u>	<u>\$ 87,304</u>	<u>\$ 3,170,422</u>

See Notes to Consolidated Financial Statements.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MAY 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Total changes in net assets	\$ 2,313,515
Adjustments to reconcile total changes in net assets to net change from operating activities:	
PPP loan forgiveness	(55,800)
Debt forgiveness	(169,260)
Investment (income) loss	(2,062,197)
Investment fees	68,230
Depreciation	38,729
In-kind contributions	(29,400)
In-kind expenses	29,400
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(235,738)
(Increase) decrease in prepaid expenses	600
(Increase) decrease in unconditional promises to give	40,600
Increase (decrease) in accounts payable	10,870
Increase (decrease) in annuity liability	2,475
Increase (decrease) in other accrued payables	<u>402,860</u>
NET CHANGE FROM OPERATING ACTIVITIES	354,884
CASH FLOWS FROM INVESTING ACTIVITIES	
Net contributions (to)/from investments	(817,055)
Purchases of property and equipment	<u>(59,111)</u>
NET CHANGE FROM INVESTING ACTIVITIES	(876,166)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments to annuitant	<u>(7,002)</u>
NET CHANGE FROM FINANCING ACTIVITIES	<u>(7,002)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(528,284)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,650,684</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,122,400</u></u>

See Notes to Consolidated Financial Statements.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED 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 - DISREGARDED ENTITY

Starting June 1, 2018, Southern Lights Management, LLC, ("Subsidiary") was set up as a disregarded LLC of the Foundation and is solely owned by the Foundation. As such, the Subsidiary has been consolidated into the financial statements. The purpose of the Subsidiary is to conduct the Southern Lights 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 Foundation operating bank account to the Subsidiary bank account as seed money.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of the Foundation and Subsidiary 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 consolidated 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 consolidated 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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. The Foundation also has net assets with donor restrictions that are limited as to use 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 highly liquid investments with a maturity of three months or less to be cash and cash equivalents, except those held in investment portfolio. The Foundation typically maintains cash on deposit at banks in excess of the federally insured limits.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents - continued

The following table provides a reconciliation of cash reported within the consolidated statement of financial position that sum to the total in the consolidated statement of cash flows as of May 31, 2021:

Cash in bank:	
Operations	\$ 928,522
Donor restricted	193,878
Total cash and restricted cash	<u>\$1,122,400</u>

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, 2021. 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, 2021, the Foundation has no uncertain tax positions that qualify for disclosure in the consolidated financial statements. Tax years still open under federal and state statute of limitations remain subject to review and change.

Property and Equipment

Property and equipment are recorded at cost if purchased, or fair value on the date of the gift, if donated. Items with an individual cost of \$2,000 or more are considered for capitalization, based upon management's approval of items. 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.

Accounts Receivable and Unconditional Promises to Give

Accounts receivable and unconditional promises to give are recognized as revenues in the period earned or when the pledge is received. The Foundation's accounts receivable and unconditional promises to give are net of an allowance for doubtful accounts/uncollectible promises to give at year end. The allowance 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 of \$0 as of May 31, 2021. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

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

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C - 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 and 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, 2021 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 1.2% as of May 31, 2021.

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 consolidated financial statements. The Foundation's policy is to recognize the costs of compensated absences when actually paid.

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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. The Foundation's policy is to present net assets with donor restrictions received during the year whose restrictions are also met during the year as net assets without donor restrictions.

Advertising and Promotion

The Foundation and Subsidiary expense advertising and promotion costs as incurred. Advertising and promotion expense was \$108,227 for the year ended May 31, 2021.

Functional Expenses

The costs of program and supporting services activities have been summarized in the consolidated statement of activities and changes in net assets. The consolidated statement of functional expenses presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated, on a reasonable basis by management, among the programs and supported services benefited.

Donated Services

No amounts have been recorded in the consolidated financial 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 D - CONCENTRATION OF CREDIT RISK

The Foundation has a concentration of credit risk in that it periodically maintains cash deposits in a single financial institution in excess amounts insured by the FDIC but has policies in place to monitor and manage credit risk. The Foundation has not experienced any losses on such accounts and does not believe it is subject to significant credit risk.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E - UNCONDITIONAL PROMISES TO GIVE

Gross unconditional promises to give, at no discount, are \$35,000 at May 31, 2021. Management considers all unconditional promises to give to be fully collectible.

NOTE F - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of the May 31, 2021 consolidated statement of financial position date comprise the following:

Financial assets at year-end:	\$12,867,377
Less those unavailable for general expenditures within one year:	
Cash and cash equivalents - donor restricted	(193,878)
Investments - board designated	(8,832,552)
Investments - donor restricted	(2,641,687)
Unconditional promises to give	<u>(35,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,164,260</u>

As part of the Foundations's liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due.

NOTE G - 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).

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.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - INVESTMENTS - CONTINUED

Fair value measurements, all of which are considered Level 1, of the Foundation at May 31, 2021 are summarized below:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain/ (Loss)</u>
Cash and cash equivalents	\$ 1,152,952	\$ 1,152,952	\$ -
U.S. government bonds	317,799	352,492	(34,693)
Corporate bonds	2,431,521	2,384,655	46,866
Common stock	7,559,245	5,250,129	2,309,116
Accrued income	12,722	-	12,722
Total	<u>\$11,474,239</u>	<u>\$ 9,140,228</u>	<u>\$2,334,011</u>

Investment income (loss) is summarized as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 123,562	\$ 42,534	\$ 166,096
Realized and unrealized gain	1,436,898	459,203	1,896,101
Total investment income (loss)	<u>\$ 1,560,460</u>	<u>\$ 501,737</u>	<u>\$2,062,197</u>

NOTE H - 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 net assets with donor restrictions the original value of gifts donated to the Dr. Donald L. Jacobs Endowment and the W. Paul Little Cultural and Learning Endowment 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.

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.

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - ENDOWMENT FUNDS - CONTINUED

Endowment net asset composition by type of fund as of May 31, 2021:

	Without Donor Restrictions, Designated	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 2,641,687	\$ 2,641,687
Board-designated endowment funds	8,832,552	-	8,832,552
Total Funds	<u>\$ 8,832,552</u>	<u>\$ 2,641,687</u>	<u>\$11,474,239</u>

Changes in endowment net assets for the year ended May 31, 2021:

	Without Donor Restrictions, Designated	With Donor Restrictions	Total
Beginning of the year	\$ 6,429,970	\$ 2,233,247	\$ 8,663,217
Investment income	123,562	42,534	166,096
Net realized and unrealized gain	1,436,898	459,203	1,896,101
Net contributions/transfers/withdrawals	893,998	(76,943)	817,055
Appropriated for expenditure	(51,876)	(16,354)	(68,230)
Balance at May 31, 2021	<u>\$ 8,832,552</u>	<u>\$ 2,641,687</u>	<u>\$11,474,239</u>

NOTE I - PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2021 consist of the following components:

Building improvements	\$ 16,495
Machinery and equipment	<u>1,544,025</u>
Property and equipment, cost	1,560,520
Less accumulated depreciation	<u>(1,351,748)</u>
Property and equipment, net	<u>\$ 208,772</u>

Depreciation expense for the year ended May 31, 2021 was \$38,729.

NOTE J - PPP LOAN FORGIVENESS

The Foundation received \$55,800 in Paycheck Protection Program ("PPP") funding on May 4, 2020 from Central Bank & Trust Co. through the U.S. Small Business Administration under the Coronavirus Aid Relief and Economic Security Act. The terms of the funding agreement indicate that the Foundation must utilize the proceeds to fund/offset qualifying expenses as allowed by the PPP in order for the funds to be forgiven.

The Foundation qualified for, and received notification of, forgiveness on April 19, 2021. Accordingly, these funds have been included in other revenue in the consolidated statement of activities and changes in net assets for the year ended May 31, 2021.

NOTE K - OPERATING LEASE

In September 2019, the Foundation entered into a lease agreement with Carriage Association of America, Inc. to lease office space. The agreement is a three year lease commencing on October 1, 2019. Payments of \$1,200 are due monthly. Rental expense for the lease totaled \$14,400 for the year ended May 31, 2021.

Future minimum payments under the lease are as follows:

<u>Fiscal Year</u>	
2022	\$14,400
2023	<u>4,800</u>
	<u>\$19,200</u>

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L - NET ASSETS WITHOUT DONOR RESTRICTIONS, DESIGNATED

Total net assets without donor restrictions, designated are \$8,832,552 as of May 31, 2021.

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

A portion of net assets with donor restrictions at May 31, 2021 are available for the following purposes:

African American Exhibit	\$ 42
All the Gold	127,255
Campground	7,811
Dedicated Horse Path	22,844
Dressage Complex	82,567
Green Campaign	11,538
Hall of Champions	17,948
Horse Drawn Tours	22,160
In Memoriam	12,472
Jackson	1,652
Jacobs Endowment	286,785
KHP Field Trip	21,557
KY Coal Display	35,000
Little Endowment	1,024,863
Mounted Police	8,819
Mustang Troop	17,686
National Horse Show	1,559
Parade of Breeds	1,150
Purebred Arabian Trust	19,273
Total	<u>\$1,722,981</u>

The remaining portion of net assets with donor restrictions are limited by donor-imposed stipulations and do not expire with the passage of time and cannot be removed by the Foundation's actions. These 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 N - RELATED PARTY TRANSACTIONS

During the year ended May 31, 2021, the Foundation made the following disbursements to the Kentucky Horse Park:

Campground	\$ 723
Dedicated Horse Path	34,600
Hall of Champions	1,512
IMLS Grant	164,165
In-Kind	29,400
International Museum of the Horse	11,430
Mounted Police	6,151
Mustang/Equine Troop	18,059
Parade of Breeds	4,465
Park Projects	173,315
Purebred Arabian Trust Museum	47,007
Southern Lights	100,580
Staying Together	520
Volunteers	6,025
Total	<u>\$597,952</u>

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE N - RELATED PARTY TRANSACTIONS - CONTINUED

The Subsidiary leased property from the Kentucky Horse Park during the year ended May 31, 2021. The Kentucky Horse Park charged the Subsidiary rent of \$26,815 for the year ended May 31, 2021.

NOTE O - ADOPTION OF ACCOUNTING PRONOUNCEMENT

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-18, *Statement of Cash Flows* (Topic 230). The amendment in the ASU requires that a statement of cash flows detail the change during the period in total cash and cash equivalents, and amounts generally described as designated or restricted cash and cash equivalents. Therefore, amounts generally described as designated or restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts presented on the consolidated statement of cash flows. The Foundation has adjusted the presentation of these items accordingly. The ASU has been applied retrospectively to all periods presented.

FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification ("ASC"). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Foundation refers to the new Topic 606 and Subtopic 340-40 as the "new guidance."

The Foundation adopted the requirements of the new guidance during the year, utilizing the full retrospective method of transition. Adoption of the new guidance resulted in changes to the Foundation's accounting policies for revenue and cost recognition, previously described.

The difference to revenue and cost recognition-related account balances under the new guidance as opposed to the prior revenue recognition guidance was determined to be immaterial. Accordingly, no adjustment to beginning net assets was necessary.

NOTE P - ACCOUNTING STANDARDS UPDATES

The FASB has issued accounting standard No. 2016-02, *Leases*, concerning the accounting for leases effective for years beginning after December 15, 2021. The Foundation is evaluating the impact that adoption of these standards will have on future financial position and results of operations.

NOTE Q - DATE OF MANAGEMENT'S REVIEW

The Foundation's subsequent events have been evaluated by management through October 12, 2021, which is the date the consolidated financial statements were available to be issued.

NOTE R - SUBSEQUENT EVENT

The financial effects of COVID-19 have impacted a variety of entities within the United States and abroad. As of October 12, 2021, the Foundation and Subsidiary cannot reasonably estimate the impact COVID-19 will have on its overall financial performance, if any. Accordingly, these consolidated financial statements do not include any adjustments associated with the possible consequences of COVID-19.

KENTUCKY HORSE PARK FOUNDATION, INC.
AND SUBSIDIARY

SUPPLEMENTAL INFORMATION

YEAR ENDED MAY 31, 2021

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
SCHEDULE I - CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
MAY 31, 2021

ASSETS	Kentucky Horse Park Foundation, Inc.	Southern Lights Management, LLC	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 226,824	\$ 701,698	\$ 928,522
Accounts receivable	235,738	-	235,738
Prepaid expenses	13,240	3,966	17,206
TOTAL CURRENT ASSETS	475,802	705,664	1,181,466
OTHER ASSETS			
Cash and cash equivalents	193,878	-	193,878
Investments	3,367,119	-	3,367,119
Investments held for charitable gift annuity	214,493	-	214,493
Investments held for endowment purposes	7,892,627	-	7,892,627
Unconditional promises to give	35,000	-	35,000
TOTAL OTHER ASSETS	11,703,117	-	11,703,117
PROPERTY AND EQUIPMENT, NET	208,772	-	208,772
TOTAL ASSETS	\$ 12,387,691	\$ 705,664	\$ 13,093,355
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 18,722	\$ -	\$ 18,722
Annuity liability	76,002	-	76,002
Other accrued payables	410,204	-	410,204
TOTAL CURRENT LIABILITIES	504,928	-	504,928
NET ASSETS			
Without donor restrictions:			
Undesignated	179,646	705,664	885,310
Designated	8,832,552	-	8,832,552
	9,012,198	705,664	9,717,862
With donor restrictions	2,870,565	-	2,870,565
TOTAL NET ASSETS	11,882,763	705,664	12,588,427
TOTAL LIABILITIES AND NET ASSETS	\$ 12,387,691	\$ 705,664	\$ 13,093,355

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
SCHEDULE II - CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED MAY 31, 2021

	Kentucky Horse Park Foundation, Inc.	Southern Lights Management, LLC	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 858,158	\$ -	\$ 858,158
Events	1,449,653	-	1,449,653
Southern Lights	-	853,957	853,957
Other revenue	232,815	-	232,815
In-kind contributions	29,400	-	29,400
TOTAL REVENUES AND OTHER SUPPORT	2,570,026	853,957	3,423,983
EXPENSES			
Program	2,447,384	392,812	2,840,196
General and administrative	242,922	-	242,922
Fundraising	87,304	-	87,304
TOTAL EXPENSES	2,777,610	392,812	3,170,422
CHANGES IN NET ASSETS FROM OPERATIONS	(207,584)	461,145	253,561
OTHER CHANGES			
Annuity liability adjustment	(2,475)	-	(2,475)
Investment income (loss)	2,062,429	-	2,062,429
TOTAL OTHER CHANGES	2,059,954	-	2,059,954
TOTAL CHANGES IN NET ASSETS	1,852,370	461,145	2,313,515
NET ASSETS, BEGINNING OF YEAR	9,892,464	382,448	10,274,912
NET TRANSFERS TO/(FROM)	137,929	(137,929)	-
NET ASSETS, END OF YEAR	\$ 11,882,763	\$ 705,664	\$ 12,588,427

KENTUCKY HORSE PARK FOUNDATION, INC. AND SUBSIDIARY
SCHEDULE III - CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED MAY 31, 2021

	Kentucky Horse Park Foundation, Inc.	Southern Lights Management, LLC	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Total changes in net assets	\$ 1,852,370	\$ 461,145	\$ 2,313,515
Adjustments to reconcile total changes in net assets to net change from operating activities:			
Net transfers to/from	137,929	(137,929)	-
PPP loan forgiveness	(55,800)	-	(55,800)
Debt forgiveness	(169,260)	-	(169,260)
Investment (income) loss	(2,062,197)	-	(2,062,197)
Investment fees	68,230	-	68,230
Depreciation	38,729	-	38,729
In-kind contributions	(29,400)	-	(29,400)
In-kind expenses	29,400	-	29,400
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(235,738)	-	(235,738)
(Increase) decrease in prepaid expenses	(5,289)	5,889	600
(Increase) decrease in unconditional promises to give	40,600	-	40,600
Increase (decrease) in accounts payable	10,870	-	10,870
Increase (decrease) in annuity liability	2,475	-	2,475
Increase (decrease) in other accrued payables	402,860	-	402,860
NET CHANGE FROM OPERATING ACTIVITIES	25,779	329,105	354,884
CASH FLOWS FROM INVESTING ACTIVITIES			
Net contributions (to)/from investments	(817,055)	-	(817,055)
Purchases of property and equipment	(59,111)	-	(59,111)
NET CHANGE FROM INVESTING ACTIVITIES	(876,166)	-	(876,166)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to annuitant	(7,002)	-	(7,002)
NET CHANGE FROM FINANCING ACTIVITIES	(7,002)	-	(7,002)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(857,389)	329,105	(528,284)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,278,091	372,593	1,650,684
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 420,702	\$ 701,698	\$ 1,122,400

Hicks & Associates CPAs

CERTIFIED PUBLIC ACCOUNTANTS

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, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2021.

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 financial statements. 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*.

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
-CONTINUED-

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 12, 2021