

American Quarter Horse Foundation

Financial Report

September 30, 2020

CONTENTS

Page

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statement of Functional Expenses.....	4
Statements of Cash Flows	6
Notes to Financial Statements.....	7



Independent Auditor's Report

To the Board of Trustees of
American Quarter Horse Foundation

We have audited the accompanying financial statements of the American Quarter Horse Foundation (the Foundation) which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 15, 2021

Weaver and Tidwell, L.L.P.
2821 West 7th Street, Suite 700 / Fort Worth, Texas 76107
Main: 817.332.7905

American Quarter Horse Foundation

Statements of Financial Position

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 444,421	\$ 595,304
Contributions receivable, net	208,319	167,772
Prepaid expenses	51,737	36,237
Investments	41,944,770	39,997,829
Property and equipment, net	5,314,965	5,610,369
Collections and exhibits, net	2,477,713	2,663,771
TOTAL ASSETS	<u>\$ 50,441,925</u>	<u>\$ 49,071,282</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 77,592	\$ 213,429
Pension liability	362,862	366,129
Research grants payable	96,419	131,540
Total liabilities	536,873	711,098
NET ASSETS		
Without donor restrictions	16,684,832	16,907,002
With donor restrictions	33,220,220	31,453,182
Total net assets	<u>49,905,052</u>	<u>48,360,184</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 50,441,925</u>	<u>\$ 49,071,282</u>

The Notes to Financial Statements
are an integral part of these statements.

American Quarter Horse Foundation
 Statements of Activities
 Years Ended September 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Operating revenue and other support						
Sales and admissions	\$ 31,176	\$ -	\$ 31,176	\$ 131,646	\$ -	\$ 131,646
Contributions	246,107	922,719	1,168,826	418,293	1,407,961	1,826,254
In kind contributions	3,602,822	-	3,602,822	-	-	-
Investment return	865,391	2,124,850	2,990,241	229,153	692,013	921,166
Other income	15,158	-	15,158	187,745	-	187,745
Related organizational support	28,600	-	28,600	-	-	-
Net assets released from restrictions	1,280,531	(1,280,531)	-	1,444,608	(1,444,608)	-
Total revenue and other support	6,069,785	1,767,038	7,836,823	2,411,445	655,366	3,066,811
EXPENSES						
Program expenses						
Operations of Hall of Fame	954,106	-	954,106	1,153,107	-	1,153,107
Scholarships	618,399	-	618,399	543,127	-	543,127
Research and grants	330,697	-	330,697	519,198	-	519,198
Total program services	1,903,202	-	1,903,202	2,215,432	-	2,215,432
General and administrative	4,301,732	-	4,301,732	412,528	-	412,528
Fundraising	87,021	-	87,021	648,498	-	648,498
Total expenses	6,291,955	-	6,291,955	3,276,458	-	3,276,458
Change in net assets	(222,170)	1,767,038	1,544,868	(865,013)	655,366	(209,647)
NET ASSETS, beginning of year	16,907,002	31,453,182	48,360,184	17,772,015	30,797,816	48,569,831
NET ASSETS, end of year	<u>\$ 16,684,832</u>	<u>\$ 33,220,220</u>	<u>\$ 49,905,052</u>	<u>\$ 16,907,002</u>	<u>\$ 31,453,182</u>	<u>\$ 48,360,184</u>

The Notes to Financial Statements
 are an integral part of these statements.

American Quarter Horse Foundation
Statement of Functional Expenses
Year Ended September 30, 2020

	Program Services			Supporting Services			Total 2020
	Operations of Hall of Fame	Scholarships	Research and Grants	Total Program Services	General and Administrative	Fundraising	
Salaries and benefits	\$ 140,475	\$ 47,366	\$ 62,926	\$ 250,767	\$ 245,715	\$ 113,850	\$ 610,332
Scholarships	-	494,103	-	494,103	-	-	494,103
Building and property	182,647	-	-	182,647	16,128	-	198,775
Office expense	8,812	37	-	8,849	15,708	3,606	28,163
Information technology	5,747	7,719	8,219	21,685	15,827	11,016	48,528
Exhibit expense	65,188	-	-	65,188	-	-	65,188
Travel expense	476	-	-	476	10,659	11,968	23,103
Promotion and marketing	5,447	-	-	5,447	3,992	767	10,206
Fundraising expense	783	-	-	783	-	23,375	24,158
Grants	12,536	-	217,637	230,173	-	-	230,173
Professional Fees	2,185	-	16	2,201	34,998	-	37,199
Administrative fees	38,500	40,800	42,400	121,700	219,500	12,400	353,600
Miscellaneous expense	5,622	6,174	11,248	23,044	5,116	-	28,160
Depreciation and amortization	479,577	-	1,018	480,595	36,737	-	517,332
In kind expenses	-	-	-	-	3,602,822	-	3,602,822
Retirement benefits and other	6,111	22,200	(12,767)	15,544	94,530	(89,961)	20,113
TOTAL EXPENSES	\$ 954,106	\$ 618,399	\$ 330,697	\$ 1,903,202	\$ 4,301,732	\$ 87,021	\$ 6,291,955

The Notes to Financial Statements
are an integral part of this statement.

American Quarter Horse Foundation
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services				Supporting Services		Total 2019
	Operations of Hall of Fame	Scholarships	Research and Grants	Total Program Services	General and Administrative	Fundraising	
Salaries and benefits	\$ 157,108	\$ 36,405	\$ 61,455	\$ 254,968	\$ 1,301	\$ 193,703	\$ 449,972
Scholarships	-	457,321	-	457,321	-	-	457,321
Building and property	213,682	-	-	213,682	19,703	-	233,385
Office expense	29,440	174	-	29,614	18,628	89	48,331
Information technology	21,107	6,345	7,841	35,293	11,609	7,780	54,682
Exhibit expense	40,751	-	-	40,751	-	-	40,751
Travel expense	574	-	2,064	2,638	24,757	31,499	58,894
Promotion and marketing	34,491	-	-	34,491	10,616	717	45,824
Fundraising expense	55,076	-	-	55,076	-	272,597	327,673
Grants	-	-	363,784	363,784	-	-	363,784
Administrative fees	-	-	-	-	279,100	30,800	309,900
Miscellaneous expense	7,172	3,804	5,213	16,189	9,168	-	25,357
Depreciation and amortization	484,169	-	3,053	487,222	37,646	-	524,868
Retirement benefits and other	109,537	39,078	75,788	224,403	-	111,313	335,716
TOTAL EXPENSES	\$ 1,153,107	\$ 543,127	\$ 519,198	\$ 2,215,432	\$ 412,528	\$ 648,498	\$ 3,276,458

The Notes to Financial Statements
are an integral part of this statement.

American Quarter Horse Foundation
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,544,868	\$ (209,647)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	517,332	524,868
Donated works of art	(30,000)	-
Net appreciation on investments	(2,634,254)	(919,514)
Scholarships released from escrow		(86,555)
Changes in operating assets and liabilities		
Contributions receivable	(40,547)	(23,209)
Prepaid expenses	(15,500)	9,009
Accounts payable and other liabilities	(135,837)	(91,858)
Research grants payable	(35,121)	(14,539)
Pension liability	(3,267)	287,427
	(832,326)	(524,018)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases and sales of investments	687,313	500,193
Purchases of property, equipment and collections	(5,870)	-
Proceeds from sales of property and equipment	-	5,255
	681,443	505,448
Net cash provided by investing activities	681,443	505,448
Net change in cash and cash equivalents	(150,883)	(18,570)
CASH AND CASH EQUIVALENTS, beginning of year	595,304	613,874
CASH AND CASH EQUIVALENTS, end of year	\$ 444,421	\$ 595,304

The Notes to Financial Statements are an integral part of these statements.

American Quarter Horse Foundation

Notes to Financial Statements

Note 1. Organization

The American Quarter Horse Foundation (the Foundation) is a nonprofit corporation formed by the American Quarter Horse Association (the Association) to encourage, by public contribution, support of worthwhile educational and charitable projects of interest and benefit to devotees of the American Quarter Horse. The Foundation operates the American Quarter Horse Hall of Fame and Museum (the Hall of Fame), which opened in 1991. The Hall of Fame is devoted to honoring the American Quarter Horse and those responsible for the success of the breed. In addition, the Foundation sponsors a scholarship program directed toward the education of youth in the equine industry and provides funding for equine research. The Executive Committee, along with a representative from the Foundation Council, serves as the Board of Trustees of the Foundation.

Note 2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Foundation is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

Financial Statement Presentation

The Foundation's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires that resources be classified according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Descriptions of the two net asset categories and related activities follow:

- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that may or will be met by actions of the Foundation and/or the passage of time (net assets with donor restrictions – time and purpose), and net assets subject to donor-imposed restrictions that will never lapse thus requiring the funds to be maintained permanently by the Foundation (net assets with donor restrictions – held in perpetuity).
- Net assets without donor restrictions - Net assets not subject to donor-imposed restrictions. The category of net assets includes amounts appropriated by the Board of Trustees.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

American Quarter Horse Foundation

Notes to Financial Statements

Cash and Cash Equivalents and Cash and Cash Equivalents Designated for Investment

For purposes of the statements of cash flows, the Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents available for investment are held in various investment accounts. The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses related to these concentrations.

Contributions Receivable

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of the expected future cash flows using a discount rate.

An allowance for uncollectible accounts is estimated by the Foundation's management based on its historical loss analysis and is adjusted for those specific contributions receivable for which collection is uncertain (See Note 3).

Prepaid Expenses

Prepaid expenses are recorded at cost and consist of amounts paid in advance for goods and services to be used or received in the near future.

Investments

Investments consist of mutual funds, domestic bonds, domestic common stock, US government and agency bonds, and real estate partnerships which are recorded at fair value in accordance with *ASC 820 Fair Value Measurements and Disclosures* (See Note 4). Realized and unrealized gains and losses are recognized in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost or estimated fair value at the date of donation. Depreciation and amortization is provided for in amounts sufficient to relate the cost of depreciable assets over their estimated service lives of approximately 35 to 40 years on buildings and improvements, 3 to 10 years on furniture and equipment, and 2 to 10 years on intangible software and technology on a straight-line basis.

Collections and Exhibits

Collections and exhibits are recorded at cost or estimated fair value at the date of donation. Collections consist primarily of donated art objects where fair value at the date of contribution is determined by appraisal. Depreciation is provided for in amounts sufficient to relate the cost of exhibits over their estimated service lives of approximately 5 to 15 years on a straight-line basis. No depreciation has been provided for collections which are limited works of a rare nature. Gains or losses on the disposition of collections and exhibits are recorded on the statement of activities at the time of disposition and are classified as net assets with or without donor restrictions depending on donor restrictions, if any, placed on the item at the date of donation.

American Quarter Horse Foundation

Notes to Financial Statements

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. As of September 30, 2020 and 2019, the Foundation's management has not recognized impairment on any long-lived assets.

Federal Income Tax

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is recognized as a public charity under Section 509(a)(3). Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained when "challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain income tax positions.

Revenue Recognition

The primary sources of revenue for the Foundation are recognized as follows:

Sales and admissions

Revenue from admissions to the Hall of Fame and Museum are recognized at the time of sale.

Contributions

The Foundation recognizes contribution revenue at the time of donation or when an unconditional promise to give is made by the donor. Contributions are recorded as either net assets with or without donor restrictions in accordance with donor restrictions, if any.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been presented on a functional basis in the statement of functional expenses for 2019 and 2020. The financial statements report certain categories of expenses that are attributable to one or more program service or supporting service of the Foundation. Accordingly, those costs have been directly allocated among program services and supporting services based on time and effort. Utilities are allocated based on square footage.

Subsequent Events

Management has evaluated events subsequent to September 30, 2020 through March 15, 2021, the date on which the financial statements were available to be issued.

American Quarter Horse Foundation

Notes to Financial Statements

Accounting Pronouncements Adopted

In May 2014, the FASB issued ASU 2014-09, which amends ASC Topic 606, "Revenue from Contracts with Customers". The amendments in this ASU provide a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for private entities. Certain revenue streams, such as grants, contributions and investment income, were scoped out. The Foundation has adopted the guidance as of January 1, 2019 using the modified retrospective transition method. However, because adoption of this guidance did not change the timing or amount of the Foundation's recognition of revenue, there was no adjustment to net assets needed as part of adoption of the new standard.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* which amends ASC Topic 958, "Not-for-Profit Entities". The amendments in this ASU clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction, and requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer asset. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 in which the entity serves as the resource recipient. The Foundation has adopted the guidance as of September 1, 2019 using the modified prospective basis. The adoption of this guidance did not change the timing or amount of the Foundation's recognition of revenue for grants or contributions, as revenue recognition policies in place were consistent with revenue recognition policies noted in this amendment.

Note 3. Contributions Receivable

Contributions receivable consisted of the following at September 30:

	2020	2019
Within one year	\$ 134,080	\$ 112,480
One to five years	132,480	112,480
After five years	14,000	14,550
Subtotal	280,560	239,510
Allowance for doubtful accounts	(60,700)	(54,250)
Unamortized discount	(11,541)	(17,488)
Total contributions receivable, net	\$ 208,319	\$ 167,772

Unconditional promises to give at September 30, 2020 were comprised of amounts to be collected in one to six years. The Foundation discounts pledges expected to be collected after one year. Amortization of the discount on long-term pledges receivable is included within management and general expenses for the years ended September 30, 2020 and 2019, respectively.

The discount rates used to calculate the present value of pledges receivable were between 1.69% and 5.46% as of September 30, 2020, and between 1.84% and 5.46 % as of September 30, 2019.

American Quarter Horse Foundation

Notes to Financial Statements

Note 4. Fair Value Measurements

Accounting Standard Codification 820 *Fair Value Measurements* establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value into three broad levels. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The objective of the fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy prioritizes the inputs into valuation techniques to measure fair value into three broad levels. They are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.
- Level 3: Unobservable inputs for the asset or liability that are inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability.

The fair value hierarchy gives the highest priority for quoted prices (unadjusted) in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Mutual Funds and Domestic Common Stock— These classifications consist of investments in various funds and securities that have differing investment goals that are traded in an active market.

Domestic Bonds, Corporate Bonds and US Government and Agency Bonds— There are valued using information from the custodian, which is based on quoted prices available from well known brokers.

Investments Measured at Net Asset Value (NAV) — This classification includes investments in limited partnerships whose portfolios may include real property located in the United States. The general partner of each partnership has the authority and discretion to manage and control the affairs of the partnership, including selecting real property to invest in and when to sell owned assets. Investments held by the limited partnership generally are carried at fair value as determined by the respective general partners and may be based on various pricing models. The fair values of the investments in this category have been determined using the practical expedient methodology and are therefore valued at net asset value. The ability to liquidate these investments in the limited partnerships is restricted in accordance with the provisions of the partnership agreements, which state that invested capital is not returned until the dissolution of the partnerships. Investments measured at NAV are excluded from the scope of the fair value hierarchy.

American Quarter Horse Foundation

Notes to Financial Statements

The investment policy allows for a certain range of the investment portfolio to be invested in alternative investment instruments. The Foundation's investments in these alternative investment instruments are carried at the aggregate net asset value of the shares held by the Foundation. The net asset value is based on the net market value of the alternative investment instrument's investment portfolio as determined by the management of the alternative investment instrument. The Foundation's investments in alternative investment instruments are in limited partnerships, which include private equity and real estate assets.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments. Investments may be exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could affect investment balances and the amounts reported in the financial statements.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. During the year ended September 30, 2020, there were no significant transfers among fair value levels. During the year ended September 30, 2019, there were \$6,889,095 in Level 1 investments transferred to Level 2.

Investments consisted of the following at September 30, 2020:

	2020			
	Level 1	Level 2	Level 3	Total
Bonds				
US Government and agency bonds	\$ 3,755,291	\$ -	\$ -	\$ 3,755,291
Corporate bonds	-	4,577,038	-	4,577,038
Mutual funds				
Bond mutual funds	8,963,664	-	-	8,963,664
Equity mutual funds	19,914,311	-	-	19,914,311
Total assets in the fair value hierarchy	<u>\$32,633,266</u>	<u>\$ 4,577,038</u>	<u>\$ -</u>	37,210,304
Cash				2,634,254
Investments measured at NAV				<u>2,100,212</u>
Investments at fair value				<u>\$41,944,770</u>

American Quarter Horse Foundation

Notes to Financial Statements

Investments consisted of the following at September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds				
US Government and agency bonds	\$ 4,813,303	\$ -	\$ -	\$ 4,813,303
Corporate bonds	-	6,889,095	-	6,889,095
Mutual funds				
Bond mutual funds	11,818,662	-	-	11,818,662
Equity mutual funds	9,872,073	-	-	9,872,073
Domestic equity securities				
Healthcare	372,597	-	-	372,597
Financials	270,198	-	-	270,198
Consumer staples	174,641	-	-	174,641
Consumer discretionary	400,409	-	-	400,409
Energy	178,016	-	-	178,016
Information technology	1,056,347	-	-	1,056,347
Industrials	171,505	-	-	171,505
Miscellaneous	203,208	-	-	203,208
American depository receipts	471,631	-	-	471,631
Total assets in the fair value hierarchy	<u>\$29,802,590</u>	<u>\$ 6,889,095</u>	<u>\$ -</u>	36,691,685
Cash				1,558,772
Investments measured at NAV				<u>1,747,372</u>
Investments at fair value				<u>\$39,997,829</u>

The following table provides additional information for investments in certain entities that measure fair value using the NAV practical expedient:

	<u>Fair Value at September 30, 2020</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>	<u>Unfunded Commitments</u>
Harbert Credit Solutions Fund IV L.P.	\$ 1,120,539	N/A, redemption upon dissolution	N/A	\$ 822,691
Montauk Triguard Fund VIII, L.P.	281,936	N/A, redemption upon dissolution	N/A	1,692,512
Montauk Triguard Fund VII, L.P.	<u>697,737</u>	N/A, redemption upon dissolution	N/A	967,263
Total	<u>\$ 2,100,212</u>			

American Quarter Horse Foundation

Notes to Financial Statements

	Fair Value at September 30, 2019	Redemption Frequency (if currently eligible)	Redemption Notice Period	Unfunded Commitments
Harbert Credit Solutions Fund IV L.P.	\$ 1,032,935	N/A, redemption upon dissolution	N/A	\$ 1,405,293
Montauk Triguard Fund VII, L.P.	<u>714,437</u>	N/A, redemption upon dissolution	N/A	1,360,800
Total	<u>\$ 1,747,372</u>			

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30:

	2020	2019
Interest and dividends	\$ 1,125,439	\$ 1,237,675
Net realized and unrealized gains (loss)	1,985,910	(194,111)
Investment expenses	<u>(121,108)</u>	<u>(122,398)</u>
Total return on investments	<u>\$ 2,990,241</u>	<u>\$ 921,166</u>

Note 5. Property and Equipment

Property and equipment consisted of the following:

	2020	2019
Building and improvements	\$ 10,593,906	\$ 10,593,906
Furniture and equipment	<u>359,555</u>	<u>353,685</u>
	10,953,461	10,947,591
Accumulated depreciation	<u>(5,861,739)</u>	<u>(5,560,465)</u>
Total depreciable assets, net	5,091,722	5,387,126
Land	<u>223,243</u>	<u>223,243</u>
Total property and equipment, net	<u>\$ 5,314,965</u>	<u>\$ 5,610,369</u>

Depreciation and amortization expense related to property and equipment was \$301,274 and \$308,186 at September 30, 2020 and 2019, respectively.

American Quarter Horse Foundation

Notes to Financial Statements

Note 6. Collections and Exhibits

Collections and exhibits consisted of the following at September 30:

	2020	2019
Collections and exhibits - depreciable	\$ 3,840,934	\$ 3,840,934
Accumulated depreciation	(3,367,257)	(3,151,199)
Total depreciable collections and exhibits	473,677	689,735
Non-depreciable collections and exhibits	2,004,036	1,974,036
Total collections and exhibits, net	\$ 2,477,713	\$ 2,663,771

Depreciation expense related to collections and exhibits was \$216,058 and \$216,682 at September 30, 2020 and 2019, respectively.

Note 7. Related Party Transactions

During the years ended September 30, 2020 and 2019, the Association contributed \$31,793 and \$13,434, respectively, of revenue without donor restrictions to the Foundation. On September 30, 2020 and 2019, the Foundation had net payables to the Association totaling approximately \$7,278 and \$123,787, respectively.

Certain administrative services are provided to the Foundation by the Association. These primarily include marketing and accounting-related services. Generally, costs for these services are allocated to the Foundation and are included in general and administrative and fundraising expense on the Foundation's statements of activities. The Foundation funded certain qualified Association programs with grants totaling \$8,888 and \$18,921 for the years ended September 30, 2020 and 2019, respectively. Also, the Foundation provides discounts on sales of merchandise to the Association and its members and employees and use of the Foundation facilities for various Association activities.

Note 8. Net Assets

Net assets with donor restrictions consisted of the following at September 30:

	2020		2019	
	Purpose	Perpetuity	Purpose	Perpetuity
Operations	\$ 1,917,944	\$ 10,537,674	\$ 1,582,467	\$ 10,516,701
Research	1,371,412	6,466,611	955,263	6,458,563
Education	703,977	280,563	614,308	280,563
America's Horse Cares	634,082	2,037,283	482,243	2,030,786
Scholarships	1,391,082	7,855,546	1,086,135	7,445,854
Fundraising	24,046	-	299	-
	\$ 6,042,543	\$ 27,177,677	\$ 4,720,715	\$ 26,732,467

During years ended September 30, 2020 and 2019, respectively, \$1,280,531 and \$1,444,608 was released based on expiration of purpose restrictions related to program services.

American Quarter Horse Foundation

Notes to Financial Statements

Note 9. In-Kind Contributions

During the year ended September 30, 2020, the Foundation recognized in-kind contributions and expense for professional services related to the American Quarter Horse Museum in the amount of \$3,602,822.

Note 10. Payroll Protection Program

During year ended September 30, 2020, the Foundation received a forgivable loan under the Payroll Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security (CARES) Act in the amount of \$102,000. The Foundation has assessed funds expended under the PPP and the related forgiveness requirements (including eligible costs and maintenance of employee counts), and believes they are in compliance with all related requirements. The Foundation has applied for forgiveness and expects to receive full forgiveness in the near term. Accordingly, the funds are recorded as contribution revenue on the accompanying consolidated statement of activities for year ended September 30, 2020.

Note 11. Endowments

The Foundation's endowments consist of several different individual funds established for a variety of purposes. The Board of Trustees does not have the ability to distribute any amount of the donor's initial permanently restricted contribution. In accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- Investment policies of the organization

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. The Foundation's investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to compare to a similarly weighted benchmark representing the returns of the S&P 500 Index and the Intermediate Government/Corporate Index.

The Foundation targets a diversified asset allocation that places a greater emphasis on asset preservation while striving to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the earnings of the Foundation's various endowed funds. The current spending policy is to distribute an amount up to 5% of the trailing thirty-six-month average principal balance, limited to available undistributed earnings.

American Quarter Horse Foundation

Notes to Financial Statements

The changes in endowment net assets for the fiscal years ended September 30 are summarized below:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	
		Purpose	Perpetuity
Endowment net assets at September 30, 2018	\$ -	\$ 2,647,206	\$ 26,551,923
Contributions	-	-	165,136
Investment return on endowment assets	-	692,013	-
Net assets appropriated for expenditure	-	(1,292,977)	-
Net assets restricted due to donor requirements	-	(3,390)	15,408
Endowment net assets at September 30, 2019	-	2,042,852	26,732,467
Contributions	-	-	376,107
Investment return on endowment assets	-	2,124,851	-
Net assets appropriated for expenditure	-	(1,177,233)	-
Net assets restricted due to donor requirements	-	(69,103)	69,103
Endowment net assets at September 30, 2020	<u>\$ -</u>	<u>\$ 2,921,367</u>	<u>\$ 27,177,677</u>

All endowment net assets consist of donor-restricted endowment funds.

Note 12. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of the statements of financial position date, including amounts not available within one year of the statements of financial position date. Amounts not available include donor-imposed restrictions and board designated restrictions. As part of managing its financial assets, the Foundation ensures sufficient resources are available when obligations are due.

	2020	2019
Cash and cash equivalents	\$ 444,421	\$ 595,304
Investments	41,944,770	39,997,829
Accounts receivable	208,319	167,772
Total financial assets, year end	42,597,510	40,760,905
Less donor-imposed and board restrictions		
Board designated	8,693,055	8,741,648
Endowment held in perpetuity	27,177,674	26,732,467
Time and purpose restrictions	6,042,547	4,720,715
Total financial assets not available to be used within one year	<u>41,913,276</u>	<u>40,194,830</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 684,234</u>	<u>\$ 566,075</u>

Financial assets not available to be used within one year include \$8,693,055 and \$8,741,648 at September 30, 2020 and 2019, respectively, that has been set aside and designated by the Board of Trustees. The designations can be rescinded through board action to meet the operational needs of the Foundation.

American Quarter Horse Foundation

Notes to Financial Statements

Note 13. COVID-19 Subsequent Event

The extent the operational and financial impact the COVID-19 pandemic may have on the Foundation has yet to be determined and is dependent on its duration and spread, any related operational restrictions and the overall economy. The Foundation is unable to accurately predict how COVID-19 will affect the results of its operations because the virus' severity and the duration of the pandemic are uncertain.