

Appaloosa Horse Club

Financial Report

March 31, 2020

**Appaloosa Horse Club
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March 31, 2020 and 2019**

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Independent Accountant's Review Report

Board of Directors
Appaloosa Horse Club
Moscow, Idaho

We have reviewed the accompanying financial statements of Appaloosa Horse Club (a nonprofit organization), which are comprised of the statement of financial position as of March 31, 2020, 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. A review primarily includes applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Report on Summarized Comparative Information

The summarized comparative information has been derived from Appaloosa Horse Club's audited financial statements as of and for the year ended March 31, 2020, on which we expressed an unmodified opinion with a report date of July 20, 2020. The information presented herein, as of and for the year ended March 31, 2020, is consistent with the audited financial statements from which it has been derived.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

DeCoria & Company, PC

DeCoria & Company, PC
Afton, Wyoming

July 20, 2020

Financial Statements

Appaloosa Horse Club
Statements of Financial Position
March 31, 2020 and 2019

	2020	(Audited) 2019
ASSETS		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 27,369	\$ 422,045
Temporary investments (Note 5)	332,731	239,985
Accounts receivable	366,190	172,443
Inventories	23,230	25,263
Prepaid expenses	55,130	53,730
	<u>804,650</u>	<u>913,466</u>
Total current assets		
Noncurrent assets:		
Property and equipment, net (Note 6)	256,349	239,252
Art and artifacts	64,441	64,441
Assets held in trust (Note 7)	69,875	93,506
	<u>390,665</u>	<u>397,199</u>
Total noncurrent assets		
Total assets	<u>\$ 1,195,315</u>	<u>\$ 1,310,665</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 10,320	\$ 103,145
Accrued liabilities	100,163	99,343
Deferred revenue (Note 8)	326,726	355,557
Monies held for special services	38,277	22,290
	<u>475,486</u>	<u>580,335</u>
Total current liabilities		
Noncurrent liabilities:		
Liability for assets held in trust (Note 7)	69,875	93,506
	<u>69,875</u>	<u>93,506</u>
Total liabilities	<u>545,361</u>	<u>673,841</u>
Commitments and contingencies (Notes 10 and 12)		
Net assets (Note 9):		
Without donor restrictions	398,875	458,593
With donor restrictions	251,079	178,231
	<u>649,954</u>	<u>636,824</u>
Total net assets		
Total liabilities and net assets	<u>\$ 1,195,315</u>	<u>\$ 1,310,665</u>

Appaloosa Horse Club
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	(Audited) 2019 Total
Operating revenue:				
Memberships	\$ 315,870	\$ -	\$ 315,870	\$ 321,130
Registrations	450,899	-	450,899	455,770
Journal	254,599	-	254,599	285,465
Show	229,513	-	229,513	258,256
Sponsored events	1,813,390	-	1,813,390	1,870,852
Trail and distance	92,204	-	92,204	96,920
Racing	6,175	-	6,175	3,920
Marketing	15,882	-	15,882	42,611
Administration	76,360	-	76,360	25,747
Net assets released from donor restrictions	-	72,848	72,848	39,002
	<u>3,254,892</u>	<u>72,848</u>	<u>3,327,740</u>	<u>3,399,673</u>
Total support and revenue				
Expenses:				
Program services	2,997,273	-	2,997,273	2,609,198
Support services	284,789	-	284,789	764,498
	<u>3,282,062</u>	<u>-</u>	<u>3,282,062</u>	<u>3,373,696</u>
Total expenses				
Increase (decrease) in net assets from operations	<u>(27,170)</u>	<u>72,848</u>	<u>45,678</u>	<u>25,977</u>
Non-operating income (expenses):				
License plate revenue	40,300	-	40,300	39,390
Net assets released from donor restrictions	(72,848)	-	(72,848)	(39,002)
	<u>(32,548)</u>	<u>-</u>	<u>(32,548)</u>	<u>388</u>
Total non-operating income (expense), net				
Changes in total net assets	(59,718)	72,848	13,130	26,365
Net assets, beginning of year	458,593	178,231	636,824	610,459
	<u>458,593</u>	<u>178,231</u>	<u>636,824</u>	<u>610,459</u>
Net assets, end of year	<u>\$ 398,875</u>	<u>\$ 251,079</u>	<u>\$ 649,954</u>	<u>\$ 636,824</u>

Appaloosa Horse Club
Statements of Functional Expenses
Years Ended March 31, 2020 and 2019

	Program Services	Support Services	Total 2020	(Audited) Total 2019
Payroll and related expenses:				
Payroll	\$ 612,918	\$ 183,079	\$ 795,997	\$ 783,332
Payroll taxes	46,930	14,018	60,948	60,156
Other employee benefits	118,690	6,302	124,992	109,309
Total payroll and related expenses	778,538	203,399	981,937	952,797
Other expenses:				
Memberships	22,653	3,998	26,650	28,182
Registrations	53,605	2,821	56,426	56,829
Journal	151,345	-	151,345	185,360
Show	49,140	9,781	58,921	56,330
Sponsored events	1,536,319	-	1,536,319	1,595,609
Trail and distance	73,877	8,209	82,086	78,713
Racing	6,001	1,059	7,060	2,483
Marketing	31,886	3,655	35,541	54,883
Museum support (Note 11)	21,250	3,750	25,000	30,000
General and administrative	249,170	43,971	293,141	309,065
Total other expenses	2,195,245	77,244	2,272,489	2,397,454
Total expenses before depreciation	2,973,783	280,643	3,254,426	3,350,251
Depreciation	23,491	4,145	27,636	23,445
Total expenses	\$ 2,997,273	\$ 284,789	\$ 3,282,062	\$ 3,373,696

Appaloosa Horse Club
Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	2020	(Audited) 2019
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Changes in total net assets	\$ 13,130	\$ 26,365
Adjustments to reconcile changes in total net assets to net cash provided (used) by operating activities:		
Depreciation	27,636	23,445
Change in:		
Accounts receivable	(193,747)	(19,602)
Inventories	2,033	5,509
Prepaid expenses	(1,400)	(16,339)
Accounts payable	(92,825)	58,921
Accrued liabilities	820	1,125
Deferred revenue	(28,831)	(19,044)
Monies held for special services	15,987	2,171
	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	(257,197)	62,551
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Purchases of property and equipment	(44,733)	(5,856)
Change in temporary investments, net	(92,746)	(38,988)
	<u> </u>	<u> </u>
Net cash used by investing activities	(137,479)	(44,844)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(394,676)	17,707
Cash and cash equivalents, beginning of year	422,045	404,338
	<u> </u>	<u> </u>
Cash and cash equivalents, end of year	<u>\$ 27,369</u>	<u>\$ 422,045</u>

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

1. Organization

The Appaloosa Horse Club (“the ApHC”) is a tax-exempt organization under Internal Revenue Code Section 501(c)(5) that is headquartered in Moscow, Idaho.

The Appaloosa Horse Club is the international breed registry serving an association of members throughout the world dedicated to collecting, recording and preserving the history and integrity of the breed; improving, enhancing and promoting the Appaloosa; and honoring the tradition, history and heritage of the breed.

The primary activity of the ApHC is to maintain the official registry of the Appaloosa Horse which includes recordkeeping of horse registrations, transfers, and stallion breedings. Although the ApHC was formed principally as a registry, it is also involved in many other aspects of promoting the breed. The ApHC publishes the *Appaloosa Journal*, sanctions regional Appaloosa horse shows around the world, and sponsors a national show, a world show and the Chief Joseph Trail Ride.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the American Institute of Certified Public Accountants’ *Audit and Accounting Guide for Not-for-Profit Organizations*. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized as incurred.

Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, requires that unconditional promises to give (i.e., pledges) be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*, establishes standards for external financial statements of not-for-profit organizations. These standards require classification of net assets and revenues, expenses, gains and losses into two categories, based on the existence or absence of donor-imposed restrictions. The categories are net assets without donor restriction and net assets with donor restriction (see Note 9). In addition, the organization is required to present a statement of cash flows.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements

New accounting standards are issued by the Financial Accounting Standards Board (FASB) through Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). The FASB does not consider the ASUs authoritative on a standalone basis; they become authoritative when incorporated into the ASC.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits in banks and other highly liquid investments which have original maturities of three months or less when purchased. Funds in assets held in trust are not included in cash and cash equivalents.

Temporary Investments

Temporary investments, if any, consist of certificates of deposit with various interest rates and maturity dates ranging from more than three months to twelve months at the time of original purchase, are held with high quality credit investment companies, and are generally carried at amortized cost.

Accounts Receivable

Accounts receivable are stated at the amount that management of the ApHC expects to collect from outstanding balances. Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to record bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been used. For the year ended March 31, 2020 and 2019, the ApHC had no direct write-offs and no recoveries of amounts previously written off.

Inventories

Inventories consist of merchandise, awards, computer supplies and office supplies and are reported at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment

Purchased property and equipment are carried at cost. Donated property and equipment, if any, are carried at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the ApHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Expenses for repairs and maintenance that represent betterments or substantially prolong the useful lives of assets are also capitalized. Only assets with a useful life of five years or greater and a cost or value of \$1,000 or greater are capitalized as property and equipment. Normal maintenance and repairs are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are recognized in the Statements of Activities and Changes in Net Assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the associated assets, which range from 5 to 40 years.

Art and Artifacts

The ApHC owns certain art and artifacts, which are valued at cost and are classified as noncurrent because management intends to retain them longer than one year. These amounts are recognized in the Statements of Financial Position, with a \$64,441 balance at both March 31, 2020 and 2019. Additionally, the ApHC owns other works of art, historical treasures, and similar items that are considered to be part of a collection, and are on display in the Appaloosa Museum and Heritage Center Foundation (Appaloosa Museum). The items on display include original oil paintings; bronzes; an eagle feather bonnet, and fans; various Native American ceremonial clothing; antique rifles, guns and tools; and other artifacts commonly affiliated with the Appaloosa breed. As permitted by ASC Topic 958, *Not-for-Profit Entities*, the ApHC has elected to not capitalize the items included in this collection. Accordingly, no amount has been recognized in these financial statements for collection items held for display at the Appaloosa museum.

Valuation of Long-Lived Assets

Management of the ApHC periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for an asset impairment write-down. Impaired assets are reported at the lower of cost or fair value. At March 31, 2020 and 2019, no assets were considered to be impaired.

Financial Instruments

ASC Topic 825, *Financial Instruments*, permits entities to choose to measure many financial assets and liabilities at fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. At March 31, 2020 and 2019, the carrying value of financial instruments, such as receivables, accounts payable and other current liabilities, approximated their fair values based on the short-term maturities of these instruments.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization. At March 31, 2020 and 2019, there were no assets or liabilities that were measured at fair value on a recurring basis.

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The ApHC had no assets measured at fair value on a nonrecurring basis during 2020 and 2019.

Revenue Recognition

Revenue is recognized when services have been provided and collectability is reasonably assured.

Deferred Revenue

Deferred revenue consists of funds received for registrations, transfers and other customer services which are in the process of completion. These amounts are recognized as revenues when the work is completed. Deferred revenue also includes funds received for future magazine subscriptions, advertising, memberships and ApHC-sponsored events. Subscription and advertising revenues are recognized as publications are issued. Membership revenues are recognized over the applicable membership period. Event revenues are recognized as the events occur and contracts are fulfilled.

Income Taxes

ApHC is qualified under Section 501(c)(5) of the Internal Revenue Code (IRC); therefore, the majority of its income is exempt from federal income taxes. Income from certain operations of ApHC, primarily advertising in the *Appaloosa Journal*, is taxable for federal income tax purposes. For the years ended March 31, 2020 and 2019, Appaloosa Horse Club did not incur federal income tax expense. All other operations of the ApHC are exempt from federal income tax.

At March 31, 2020, Appaloosa Horse Club had no tax basis net operating loss carryforwards. ApHC has not recognized a deferred tax asset associated with the net operating loss carryforwards as management believes that it is more likely than not that such future tax benefits will not be realized.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

2. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

Accounting principles generally accepted in the United States of America provide guidance related to uncertainties in income taxes recognized in an organization’s financial statements and provides guidance on financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ApHC has evaluated state, federal and foreign tax positions taken in the current year, for which the statute of limitations is still open, and determined that it is more likely than not that each position would be sustained upon examination. Accordingly, management has determined that it does not have any unrecognized tax liabilities or benefits for the year ended March 31, 2020 that need to be recognized in the financial statements.

Credit Risk

Financial instruments which potentially subject the ApHC to concentration of credit risk consist primarily of cash and cash equivalents and temporary investments. The ApHC maintains its cash and cash equivalents with high quality financial institutions, and at times, balances in these financial institutions may exceed federally insured limits. The ApHC maintains temporary investments, if any, with high quality investment companies. The ApHC has not experienced any losses in such accounts and management believes the ApHC is not exposed to any significant credit risk on cash and cash equivalents and temporary investments.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the ApHC to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

The ApHC has evaluated subsequent events through July 20, 2020, the date on which these financial statements were available to be issued. Due to current health events in the country, management decided to cancel both the Chief Joseph Trail Ride and National Show in the 2020 calendar year.

3. Liquidity and Availability of Funds

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 27,369	\$ 422,045
Temporary investments	332,731	239,985
Accounts receivable	366,190	172,443
Less: Funds restricted for license plate program (Note 8)	<u>(146,298)</u>	<u>(178,231)</u>
Financial assets available to meet general expenditures	<u>\$ 579,992</u>	<u>\$ 656,242</u>

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

4. Cash and Cash Equivalents

Cash and cash equivalents consist of deposits held in checking accounts and cash equivalents held in investment accounts. Custodial credit risk is the risk that in the event of a bank failure, the ApHC's deposits may not be returned to it. Deposits held in checking accounts and cash equivalents held in investment accounts at banks and financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution.

The carrying amount of cash and cash equivalents on the ApHC's books at March 31, 2020 was \$27,369 and cash and cash equivalents held in bank and investment account totaled \$71,907. The differences between the carrying amount of cash and cash equivalents on the ApHC's books and the amounts held in bank and investment account balances consisted of outstanding checks and deposits not processed by the bank and investment company as of March 31, 2020. All amounts deposited in checking accounts and cash equivalents held in investment accounts were fully insured as of March 31, 2020.

5. Temporary Investments

Temporary investments at March 31, 2020 consisted of certificates of deposit held with an investment company with various interest rates and maturity dates ranging from more than three months to twelve months at the original time of purchase.

6. Property and Equipment

Property and equipment at March 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 203,587	\$ 203,587
Buildings and improvements	778,857	734,124
Office equipment and furniture	128,893	128,893
Auto and trucks	26,534	26,534
Journal equipment	<u>67,867</u>	<u>67,867</u>
	1,205,738	1,161,005
Less accumulated depreciation	<u>(949,389)</u>	<u>(921,753)</u>
	<u>\$ 256,349</u>	<u>\$ 239,252</u>

Depreciation expense for the years ended March 31, 2020 and 2019 was \$27,636 and \$23,445, respectively.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

7. Assets Held in Trust

Appaloosa Breeders' Trust Incentive Fund and Liability for Assets Held in Trust

This program is an investment and incentive program that provides awards based on established criteria. The purpose of the program is to promote Appaloosa stallions. Cash awards are offered for stallions and their offspring that earn points in ApHC-approved shows. All funds received, less a 5% administrative charge, are maintained in a separate account and subsequently distributed back to the horse owners, in direct proportion to ApHC-sanctioned points earned by the foals. A liability, equal to the funds held in the separate account, is recognized in the noncurrent liabilities section of the Statements of Net Assets.

Details of the activity in the Appaloosa Breeders' Trust Incentive Fund during the year ended March 31, 2020 are as follows:

<u>Breeding Year</u>	<u>Foal Crop</u>	<u>March 31, 2019</u>	<u>Pay-ins</u>	<u>Pay-outs</u>	<u>March 31, 2020</u>
2013	2014	\$ 8,532	\$ 152	\$ (8,684)	\$ ----
2014	2015	15,044	281	(7,768)	7,557
2015	2016	18,809	427	(6,675)	12,561
2016	2017	21,778	1,780	(5,935)	17,623
2017	2018	19,180	5,101	(7,835)	16,446
2018	2019	7,090	4,987	(273)	11,804
2019	2020	<u>3,073</u>	<u>971</u>	<u>(160)</u>	<u>3,884</u>
		<u>\$ 93,506</u>	<u>\$ 13,699</u>	<u>\$ (37,330)</u>	<u>\$ 69,875</u>

8. Deferred Revenue

Deferred revenue at March 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Registration and other work-in-process	\$ 89,388	\$ 86,238
Subscriptions	55,573	65,886
Memberships	<u>181,765</u>	<u>203,433</u>
	<u>\$ 326,726</u>	<u>\$ 355,557</u>

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

9. Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions include assets not subject to donor-imposed restrictions, either temporary or permanent, and consist of net assets received that are general in nature as to use and operating purposes. Gifts of long-lived assets without donor-imposed stipulations about how long the assets must be used are classified as unrestricted net assets.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets that either have temporary or permanent restrictions placed upon them. Temporarily restricted assets primarily consist of funds relating to the Organization's license plate program through the State of Idaho. Individuals have the option of purchasing Appaloosa license plates for an additional fee, through the Idaho Department of Licensing, a portion of which is provided to the Organization as additional funding. The Organization must use these proceeds exclusively for the purpose of funding youth horse programs within the State of Idaho. Contributions of cash and other assets with donor-imposed temporary restrictions, where the restrictions have been satisfied in the same reporting period as received, are reported as increases in net assets without donor restriction. Net assets with donor restriction at March 31, 2020 and 2019 totaled \$146,298 and \$178,231, respectively.

10. Retirement Plan

The ApHC has a defined contribution 401(k) plan covering substantially all eligible, full-time employees. Contributions by employees are on a voluntary basis. Discretionary contributions by the ApHC are based on eligibility requirements that include attaining the age of 21, having worked for at least one year and having worked at least 1,000 hours during the plan year. For the plan years ended March 31, 2020 and 2019 there were no discretionary contributions.

11. Related Parties

Appaloosa Youth Foundation

The Appaloosa Horse Club is related to the Appaloosa Youth Foundation through common memberships and interest. The ApHC has donated significant amounts of time for various services to the Appaloosa Youth Foundation. No amounts have been included in the financial statements for donated services since they did not meet the criteria for recognition under accounting principles generally accepted in the United States of America. The Appaloosa Youth Foundation is a separate entity, operated by its own board of directors, and is therefore, not included in these financial statements.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

11. Related Parties, Continued

Appaloosa Foundation

The Appaloosa Horse Club is related to the Appaloosa Foundation through common interests. The Appaloosa Foundation is a separate entity, operated by its own board of directors and is therefore, not included in these financial statements. Members of the ApHC may choose to make contributions to the Appaloosa Foundation along with other payments made to the ApHC.

Appaloosa Museum and Heritage Center Foundation

The Appaloosa Horse Club is related to the Appaloosa Museum through common location and interests. During the fiscal years ended March 31, 2020 and 2019, the Appaloosa Horse Club contributed \$25,000 and \$30,000, respectively, for Museum operations and has an agreement with the Appaloosa Museum to provide building space at an annual rental rate of \$1. The Appaloosa Museum is a separate entity, operated by its own board of directors and is therefore, not included in these financial statements.

12. Commitments and Contingencies

Show Facilities

During February 2020, the ApHC entered into a contract with the Indiana State Fair Commission to hold the National Appaloosa Horse Shows at the Champions Pavilion for years 2021 through the 2025 calendar year. In connection with these agreements, the Indiana State Fair Commission has contractually committed to make certain payments to the ApHC in recognition of the economic benefit of having the shows held at their facilities.

Operating Leases

The ApHC leases certain office equipment under agreements which are accounted for as operating leases, in accordance with accounting principles generally accepted in the United States of America. The leases require monthly payments ranging from \$122 to \$433 and have remaining terms of 11 months to 69 months. Scheduled future minimum payments due under these non-cancelable leases are as follows:

Year Ending March 31,

2021	\$ 9,838
2022	8,496
2023	6,331
2024	3,300
2025	2,475

Annual rent expense under these agreements was \$12,377 and \$12,080 for 2020 and 2019, respectively.

Appaloosa Horse Club
Notes to Financial Statements
March 31, 2020 and 2019

12. Commitments and Contingencies, Continued

Insurance

The ApHC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the ApHC carries commercial insurance. Settled claims did not exceed coverage during any of the past three fiscal years.

Litigation

The ApHC occasionally encounters disagreements arising principally in the normal course of operations and, if not resolved, may result in litigation. The ultimate outcome of these issues is not determinable. However, it is the opinion of the ApHC's management that any resulting liability which is not covered by insurance would not have a materially adverse effect on the ApHC's financial position and results of operations and, accordingly, no provision for loss has been recorded.

12. Prior Period Adjustment

During the year ended March 31, 2020, the ApHC identified an error in the March 31, 2019 financial statements. Because the error was material, the accompanying 2019 financial statement amounts have been restated. The error relates to an understatement of vacation pay owed to employees, which would be paid to them at the time of separation from employment. In order to correct this understatement, the following adjustments were made to the 2019 balances.

	<u>As Previously Reported</u>	<u>Correcting Adjustment</u>	<u>As Restated</u>
Accrued Liabilities	\$ 16,378	\$ 82,965	\$ 99,343
Net Assets	719,789	(82,965)	636,824