

**NATIONAL CUTTING  
HORSE ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Years Ended September 30, 2018 and 2017  
with Report of Independent Auditors**

**NATIONAL CUTTING  
HORSE ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Years Ended September 30, 2018 and 2017**

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## **REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors of the  
National Cutting Horse Association

We have audited the accompanying financial statements of the National Cutting Horse Association which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 National Cutting Horse Association as of September 30, 2018 and 2017, and changes in its net assets and its cash flows for the years then ended in conformity with GAAP.

## **Report of Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the supplemental schedules on pages 22-27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Whitley Penn LLP*

Fort Worth, Texas  
March 15, 2019

**NATIONAL CUTTING HORSE ASSOCIATION**

**STATEMENTS OF FINANCIAL POSITION**

	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,510,931	\$ 4,314,474
Accounts receivable, net of allowance for doubtful accounts of \$2,688 and \$7,513, respectively	299,638	268,018
Accounts receivable - State of Texas incentives	515,388	457,155
Accounts receivable, net - related party	49,714	13,732
Investments	8,364,722	6,891,563
Prepaid expenses and inventories	290,796	362,584
Property and equipment, net	2,706,771	3,560,650
 Total assets	 \$ 14,737,960	 \$ 15,868,176
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 449,704	\$ 444,950
Accrued liabilities	598,549	298,155
Deferred revenue for future shows	2,812,463	3,330,479
Deferred revenue for stallion/foal fees	2,350,197	2,317,497
Deferred membership dues	437,110	475,055
Deferred sponsorship revenue	30,041	246,250
Youth scholarships	1,117,678	1,038,217
Total liabilities	7,795,742	8,150,603
 Commitments and contingencies		
 Net assets:		
Unrestricted	6,604,822	5,859,557
Unrestricted: Board designated for youth activities	337,396	332,824
Temporarily restricted for Triple Crown events	-	1,525,192
Total net assets	6,942,218	7,717,573
 Total liabilities and net assets	 \$ 14,737,960	 \$ 15,868,176

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	Year Ended September 30, 2018			Year Ended September 30, 2017		
	Revenue	Expense	Increase (Decrease)	Revenue	Expense	Increase (Decrease)
<b>Unrestricted Net Assets</b>						
<b>Revenue Producing Operating Activities</b>						
Shows and related activities	\$ 20,130,783	\$ 17,496,237	\$ 2,634,546	\$ 20,062,468	\$ 17,586,038	\$ 2,476,430
Affiliate and independent producers activities	1,324,590	630,356	694,234	1,420,462	557,544	862,918
Promotion and development	1,507,499	1,589,235	(81,736)	2,234,254	2,021,526	212,728
Member services	705,517	223,169	482,348	703,451	187,877	515,574
Net assets released from restrictions	1,525,192	-	1,525,192	-	-	-
Total revenue producing activities	<u>25,193,581</u>	<u>19,938,997</u>	<u>5,254,584</u>	<u>24,420,635</u>	<u>20,352,985</u>	<u>4,067,650</u>
<b>General and Administrative Operating Costs</b>						
Salary, benefits and related taxes (unallocated)	-	1,692,159	(1,692,159)	-	1,343,747	(1,343,747)
Real estate taxes	-	37,369	(37,369)	-	38,290	(38,290)
Professional fees	-	877,757	(877,757)	-	563,925	(563,925)
Depreciation and amortization	-	886,312	(886,312)	-	505,988	(505,988)
Other revenue and general and administrative costs	206,064	1,523,776	(1,317,712)	155,503	1,470,224	(1,314,721)
Total general and administrative costs	<u>206,064</u>	<u>5,017,373</u>	<u>(4,811,309)</u>	<u>155,503</u>	<u>3,922,174</u>	<u>(3,766,671)</u>
Increase from operations	<u>25,399,645</u>	<u>24,956,370</u>	<u>443,275</u>	<u>24,576,138</u>	<u>24,275,159</u>	<u>300,979</u>
<b>Non-operating Activities</b>						
Investment activity	341,917	35,355	306,562	343,886	4,698	339,188
Website development	-	-	-	-	39,989	(39,989)
Total non-operating activities	<u>341,917</u>	<u>35,355</u>	<u>306,562</u>	<u>343,886</u>	<u>44,687</u>	<u>299,199</u>
Increase in unrestricted net assets	<u>25,741,562</u>	<u>24,991,725</u>	<u>749,837</u>	<u>24,920,024</u>	<u>24,319,846</u>	<u>600,178</u>
<b>Temporarily Restricted Net Assets</b>						
Net assets released from restrictions	(1,525,192)	-	(1,525,192)	-	-	-
Decrease in temporarily restricted net assets	<u>(1,525,192)</u>	<u>-</u>	<u>(1,525,192)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net change in net assets	<u>\$ 24,216,370</u>	<u>\$ 24,991,725</u>	<u>(775,355)</u>	<u>\$ 24,920,024</u>	<u>\$ 24,319,846</u>	<u>600,178</u>
Net assets at beginning of the year			<u>7,717,573</u>			<u>7,117,395</u>
Net assets at the end of the year			<u>\$ 6,942,218</u>			<u>\$ 7,717,573</u>

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net change in net assets	\$ (775,355)	\$ 600,178
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	886,312	505,988
Provision for bad debt	-	9,630
Net realized and unrealized gains (losses) on investments	15,480	(87,130)
Changes in operating assets and liabilities:		
Accounts receivable	(31,620)	(7,504)
Accounts receivable - State of Texas incentives	(58,233)	1,337,349
Accounts receivable - related party	(35,982)	(12,098)
Prepaid expenses and inventories	71,788	76,141
Accounts payable and accrued liabilities	305,148	231,820
Deferred revenue for future shows	(518,016)	81,396
Deferred revenue for stallion / foal fees	32,700	147,715
Deferred membership dues	(37,945)	(39,265)
Deferred sponsorship revenue	(216,209)	92,229
Youth scholarships	79,461	77,957
Net cash provided by (used in) operating activities	(282,471)	3,014,406
<b>Investing Activities</b>		
Proceeds from sale of investments	2,293,588	1,948,593
Purchases of investments	(3,782,227)	(2,318,212)
Purchases of property and equipment	(32,433)	(222,466)
Net cash used in investing activities	(1,521,072)	(592,085)
Net increase (decrease) in cash and cash equivalents	(1,803,543)	2,422,321
Cash and cash equivalents at beginning of year	4,314,474	1,892,153
Cash and cash equivalents at end of year	\$ 2,510,931	\$ 4,314,474

See accompanying notes to financial statements.

# NATIONAL CUTTING HORSE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

### A. Nature of Activities

The National Cutting Horse Association (the “Association”) is a not-for-profit organization incorporated under the laws of the state of Texas. The purpose of the Association is to encourage the development of, and public interest in, livestock and ranching through the promotion and sponsorship of public cutting horse contests, the public exhibition of cutting horses in conjunction with cattle and livestock, and the presentation and participation of cutting horse events in other general livestock exhibitions, shows, and expositions. The Association also sets standards for cutting horse contests; standardizes the election and appointment of judges and directors for such contests, exhibitions, and expositions; and, encourages the development and breeding of finer cutting horses. The Association’s corporate offices are located in Fort Worth, Texas.

### B. Summary of Significant Accounting Policies

A summary of the significant accounting policies of the Association consistently applied in the preparation of the accompanying financial statements follows.

#### Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which requires the Association to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any permanently restricted net assets.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### Contributions

The Association recognizes contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Time or purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time or purpose restriction.



## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **B. Summary of Significant Accounting Policies – continued**

##### **Cash and Cash Equivalents**

The Association considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Association maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Association has not experienced any losses related to amounts in excess of FDIC limits.

##### **Investments**

The Association follows the provisions of GAAP, which requires investments with readily determinable fair values to be stated at fair value with realized and unrealized gains and losses included in the statements of activities and changes in net assets of the respective period.

GAAP establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the assets or liabilities have a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets or liabilities.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

# NATIONAL CUTTING HORSE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS (continued)

### B. Summary of Significant Accounting Policies – continued

#### Accounts Receivable

Accounts receivable is comprised primarily of current amounts due under sponsorship agreements and advertising from the Association's magazine, *The Cutting Horse Chatter*, which are based on agreed-upon prices, as well as amounts due for the state of Texas incentives. The Association provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal accounts receivable are due 30 days after the issuance of the invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on an individual credit evaluation and specific circumstances of the customer.

#### Property and Equipment

Property and equipment have been recorded at acquisition cost. It is the Association's policy to capitalize property and equipment purchases over \$1,000. Lesser amounts are expensed. Maintenance, repairs, and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of assets retired and the related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting gain or loss is reflected in the statements of activities and changes in net assets of the respective period.

The Association follows the provisions of GAAP for the capitalization of the costs incurred for computer software developed or obtained for internal use. The Association expenses all costs incurred during the preliminary project stage of its development, and capitalizes the costs incurred during the application development stage. Costs incurred relating to upgrades and enhancements to the software are capitalized if it is determined that these upgrades or enhancements add additional functionality to the software. Costs incurred to improve and support products after they become available are charged to expense as incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	5 – 39 years
Automobiles and trailers	5 – 7 years
Office furniture and equipment	3 – 10 years
Software	3 years

Donations of property and equipment are recorded as support at their estimated fair value at the time of receipt. Such donations are reported as unrestricted support unless the donor has restricted the 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 such donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted at such time.

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Collections**

The Association's collections are comprised of artifacts of historical significance or art objects, which have been acquired through various contributions from donors since the inception of the Association. The collections are not recognized as assets in the accompanying statements of financial position. Proceeds from the deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Revenue and Deferred Revenue**

Deferred revenue for membership dues and sponsorships represents money received in advance for future periods of activity. Deferred revenue for future shows and stallion/foal fees represents entry fees received relating to future shows to be sponsored by the Association. The Association recognizes the deferred revenue upon completion of the respective show or in accordance with the terms of the sponsorship agreement. The Association recognizes membership revenue when annual membership dues are received. It is the Association's policy to amortize lifetime membership dues over seven to fifteen years. Non-pro dues, first-class postage dues, and trainer-fee dues received prior to year-end are generally amortized over one year.

**Youth Scholarships**

The liability for youth scholarship awards represents scholarships awarded that will be paid when the awardees enroll in college. If an awardee reaches age 25 and has not utilized the full amounts of the scholarship, the unused amounts are returned to the amount designated for youth funds, to be used to award additional scholarships in the future.

**Advertising**

Advertising costs are expensed as incurred.

**Income Taxes**

The Association is a not-for-profit organization as defined in Section 501(c)(5) of the Internal Revenue Code and, accordingly, its activities are generally exempt from federal income taxes. Advertising revenue generated from *The Cutting Horse Chatter* is, however, considered unrelated business income and is reported as such for tax-reporting purposes. During the years ended September 30, 2018 and 2017, net taxable unrelated business income was not significant and, therefore, no provision for income taxes was recorded in the accompanying financial statements.

No tax returns are currently under examination by any tax authorities. As of September 30, 2018 and 2017, the Association has not incurred any penalties or interest under GAAP.

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Donated Services**

Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Association. The Association pays for most services requiring specialized skills. However, a number of individuals volunteer their time and perform a variety of tasks that assist the Association with specific program functions and various other activities that are not recognized as contributions in the accompanying financial statements, because the recognition criteria was not met.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**C. Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following at September 30,:

	<u>2018</u>	<u>2017</u>
Cash	\$ 2,253,278	\$ 3,392,338
Cash equivalents	<u>257,653</u>	<u>922,136</u>
Total cash and cash equivalents	<u>\$ 2,510,931</u>	<u>\$ 4,314,474</u>

As of September 30, 2018 and 2017, cash equivalents were held by the Association's third-party investment advisor and were invested in money market funds.

**D. Accounts Receivable – State of Texas Incentives**

The certified amounts recorded in accounts receivable – state of Texas incentives are as follows at September 30,:

	<u>2018</u>	<u>2017</u>
2017 Summer Spectacular	\$ -	\$ 457,155
2018 Summer Spectacular	<u>515,388</u>	<u>-</u>
Total accounts receivable – state of Texas incentives	<u>\$ 515,388</u>	<u>\$ 457,155</u>

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Investments**

The cost and market value of investments are as follows at September 30,:

	<b>2018</b>		<b>2017</b>	
	<b>Cost</b>	<b>Market Value</b>	<b>Cost</b>	<b>Market Value</b>
Mutual funds – bonds	\$ 4,582,408	\$ 4,511,011	\$ 3,521,305	\$ 3,520,393
Mutual funds – equities	2,725,180	3,018,697	2,337,687	2,540,234
Corporate bonds	744,052	733,101	712,270	724,920
Foreign bonds	103,369	101,913	105,547	106,016
<b>Total investments</b>	<b>\$ 8,155,009</b>	<b>\$ 8,364,722</b>	<b>\$ 6,676,809</b>	<b>\$ 6,891,563</b>

The following table details the fair value hierarchy for investments measured at fair value, on a recurring basis, at September 30, 2018:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Mutual funds – bonds	\$ 4,511,011	\$ -	\$ 4,511,011
Mutual funds – equities:			
Growth	430,247	-	430,247
Equity	842,958	-	842,958
Mid-cap	476,979	-	476,979
International	389,970	-	389,970
Small cap	315,877	-	315,877
Emerging markets	264,695	-	264,695
Real estate	297,971	-	297,971
Corporate bonds	-	733,101	733,101
Foreign bonds	-	101,913	101,913
<b>Total investments</b>	<b>\$ 7,529,708</b>	<b>\$ 835,014</b>	<b>\$ 8,364,722</b>

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Investments – continued**

The following table details the fair value hierarchy for investments measured at fair value, on a recurring basis, at September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds – bonds	\$ 3,520,393	\$ -	\$ 3,520,393
Mutual funds – equities:			
Growth	385,061	-	385,061
Equity	300,299	-	300,299
Mid-cap	485,476	-	485,476
International	563,575	-	563,575
Small cap	88,340	-	88,340
Credit	383,663	-	383,663
Emerging markets	126,605	-	126,605
Real estate	207,215	-	207,215
Corporate bonds	-	724,920	724,920
Foreign bonds	-	106,016	106,016
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total investments	<u>\$ 6,060,627</u>	<u>\$ 830,936</u>	<u>\$ 6,891,563</u>

The market value of the Association’s mutual funds is considered Level 1 as the investments have readily available quoted prices in active markets. The market value of the Association’s corporate and foreign bonds is considered Level 2, as the investments represent quoted prices for identical or similar assets or liabilities in inactive markets.

Investment activity in the accompanying statements of activities and changes in net assets consisted of the following for the years ended September 30,:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 357,397	\$ 252,878
Net realized investment gains (losses)	(4,108)	1,102
Net unrealized gains (losses)	(11,372)	89,906
Investment management fees	(35,355)	(4,698)
	<u>                    </u>	<u>                    </u>
Total investment activity	<u>\$ 306,562</u>	<u>\$ 339,188</u>

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**F. Prepaid Expenses and Inventories**

Prepaid expenses and inventories consisted of the following at September 30,:

	<u>2018</u>	<u>2017</u>
Prepaid expenses	\$ 290,796	\$ 356,126
Inventories	-	6,458
Total prepaid expenses and inventories	<u>\$ 290,796</u>	<u>\$ 362,584</u>

**G. Property and Equipment**

Property and equipment consisted of the following at September 30,:

	<u>2018</u>	<u>2017</u>
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,318,765	2,318,765
Automobiles and trailers	48,488	48,488
Office furniture and equipment	949,939	917,506
Software	2,396,461	2,396,461
Total property and equipment	5,853,441	5,821,008
Less accumulated depreciation and amortization	<u>(3,146,670)</u>	<u>(2,260,358)</u>
Property and equipment, net	<u>\$ 2,706,771</u>	<u>\$ 3,560,650</u>

As of April 1, 2017, the Association's internally developed software, also known as "HUB", was substantially complete and placed into service. For the years ended September 30, 2018 and 2017, the Association incurred amortization expense related to HUB of approximately \$799,000 and \$399,000, respectively.

For the years ended September 30, 2018 and 2017, the Association incurred depreciation expense of approximately \$87,000 and \$107,000, respectively.

**H. Unrestricted Net Assets – Designated for Youth Funds**

As of September 30, 2018 and 2017, approximately \$338,000 and \$333,000, respectively, of net assets was designated by the Board of Directors of the Association for youth funds. Youth funds include excess revenues earned on youth activities that have been designated for future youth events.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **I. Temporarily Restricted Net Assets – Triple Crown Events**

During the year ended September 30, 2016, the Texas Major Events program moved from the Comptroller's Office to the Governor's Office. This prompted the change in the Association's participation in the Major Events Trust Fund to the Major Events Reimbursement Program ("MERP"). The MERP program is designed to provide reimbursement for specific expenses incurred in the production of the Triple Crown events.

Prior to 2016, based on approved applications, the state of Texas provided incentives to the city of Fort Worth for Association events held in the Fort Worth area. The city of Fort Worth, in turn, provided incentives to the Association that were restricted for the purpose of enhancing Association shows that qualify for the state incentives. During the year ended September 30, 2018, the Association incurred qualifying expenses and released from restriction the amounts held as temporarily restricted. The temporarily restricted amounts were held in investments at September 30, 2017.

#### **J. Benefit Plans**

The Association sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. The Association matches 100% of employee contributions up to 3% of the employee's eligible compensation plus a 50% matching contribution on any additional salary deferrals above 3% up to 5% of eligible compensation. The Association, at its discretion, may also contribute an additional amount, as it deems necessary. During the years ended September 30, 2018 and 2017, the Association made matching contributions of approximately \$66,000 and \$70,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the years ended September 30, 2018 and 2017.

#### **K. Stallion/Foal Fees**

In 2011, a Stallion/Foal fees incentive program replaced the previous Stallion Subscription program for the Super Stakes. Stallions are required to subscribe the year before the breeding season, which is six years prior to the first Super Stakes in which the resulting foals would be eligible to compete. The Stallion fee chart is below:

October 1st prior to Breeding Year	\$	2,600
Prior to December 31 <sup>st</sup> of Breeding Year		3,600
Prior to December 31 <sup>st</sup> of the Foals Weanling Year		4,600
Prior to December 31 <sup>st</sup> of the Foals Yearling Year		6,000
Prior to December 31 <sup>st</sup> of the Foals 2 Year Old Year		7,500
Prior to December 31 <sup>st</sup> of the Foals 3 Year Old Year		10,000

\*All stallion subscription fees include a \$100 stallion insurance fee.



**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**K. Stallion/Foal Fees – continued**

Foals are also required to be nominated in the new program in order to compete in the Super Stakes. The foal nomination fee chart is below:

Foaling year (by deadline)	\$ 200
Weanling year (by deadline)	600
2 year old (by deadline)	2,500
3 year old and up	5,000

Stallion subscription fees and foal nomination fees are held as deferred revenue and will be disbursed into the first show year of eligibility for the foals at age 4.

During the interim three years between the close of the old program in 2011 and the initial foal disbursements in 2015, \$500,000 per year (for a total of \$1,500,000 over the three years) was advanced to the Super Stakes from general fund to maintain added money in the show. Those funds will be reimbursed from the program to the general fund over a period of six years (\$250,000 per year), beginning in 2017. As of September 30, 2018, the remaining balance to be disbursed to the general fund is \$1,000,000. Subsequent to September 30, 2018, the Executive Committee of the Board of Directors approved that the remaining balance would be disbursed to the general fund in 2019.

At September 30, 2018, total advances from the general fund to the Super Stakes and total reimbursements were as follows:

Advance to the 2012 show	\$ 500,000
Advance to the 2013 show	500,000
Advance to the 2014 show	<u>500,000</u>
Total advances to the Super Stakes	<u>\$ 1,500,000</u>
2017 reimbursement	(250,000)
2018 reimbursement	<u>(250,000)</u>
Remaining total advances to the Super Stakes	<u>\$ 1,000,000</u>

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**K. Stallion/Foal Fees – continued**

The following table shows the detail of the funds at:

	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
Stallion fees collected for the 2018 Super Stakes	\$ -	\$ 475,000
Stallion fees collected for the 2019 Super Stakes	432,500	432,500
Stallion fees collected for the 2020 Super Stakes	343,500	343,500
Stallion fees collected for the 2021 Super Stakes	367,497	347,997
Stallion fees collected for the 2022 Super Stakes	330,000	315,600
Stallion fees collected for the 2023 Super Stakes	276,600	95,100
Stallion fees collected for the 2024 Super Stakes	24,000	-
Total stallion fees collected	1,774,097	2,009,697
Total advances to the Super Stakes	(1,000,000)	(1,250,000)
Net stallion fees	774,097	759,697
Foal fees collected for the 2018 Super Stakes	-	523,100
Foal fees collected for the 2019 Super Stakes	561,600	509,300
Foal fees collected for the 2020 Super Stakes	549,300	499,800
Foal fees collected for the 2021 Super Stakes	445,600	25,600
Foal fees collected for the 2022 Super Stakes	19,600	-
Total foal fees collected	1,576,100	1,557,800
Deferred revenue for stallion/ foal fees	\$ 2,350,197	\$ 2,317,497

At September 30, 2018, the Association held the deferred stallion/foal fees in a separate Super Stakes investment account, which had a balance approximating \$3,448,000. At September 30, 2018, approximately \$106,000 of the Super Stakes investment account represents investments with a maturity of three months or less when they were purchased and are classified within cash and cash equivalents in the accompanying statements of financial position. The remaining balance of approximately \$3,342,000 is classified in investments in the accompanying statements of financial position at September 30, 2018.

**L. Line-of-Credit Agreement**

In August 2018, the Association entered into a line-of-credit agreement with a financial institution in the amount of \$2,000,000. This line of credit expires in August 2020, bears interest at prime rate as published in the *Wall Street Journal* (5.25% at September 30, 2018), and is secured by certain investment accounts also held at the financial institution. During 2018, the Association borrowed and repaid \$1,000,000 on the line of credit and there was no amount outstanding under the line of credit at September 30, 2018.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (*continued*)

#### **M. Concentrations**

Entry fees, purse sponsorships, and other monies collected in advance of future shows are invested in mutual funds, short-term bond funds, and various fixed income securities, which consist of liquid assets in various financial institutions.

At September 30, 2018 and 2017, approximately 59% and 62%, respectively, of the Association's total accounts receivable was comprised of outstanding amounts due from the city of Fort Worth for the state of Texas incentives. All receivables are unsecured and are not pledged as collateral or limited in use.

#### **N. Fund-Raising Events**

The Association holds annual fund-raising events for the youth department and reports the revenue generated as promotion and development revenues in the accompanying statements of activities and changes in net assets, which approximated \$142,000 and \$227,000 during the years ended September 30, 2018 and 2017, respectively. There was approximately \$46,000 and \$96,000 of direct costs related to fund-raising events during the years ended September 30, 2018 and 2017, respectively, reported as promotion and development expense in the accompanying statements of activities and changes in net assets.

#### **O. Unrestricted Non-Operating Activities**

The Association incurred expenses of approximately \$40,000 for the year ended September 30, 2017, for planning costs associated with developing a new website. No such expenses were recorded during the year ended September 30, 2018. These expenses have been recorded as unrestricted non-operating activities, as these activities do not fall with the Association's normal operations as discussed in Note A.

#### **P. Related-Party Transactions**

NCHA Charities Foundation (the "Foundation") is a 501(c)(3) charitable organization that supports and benefits the Association by, among other things, maintaining scholarship funds, providing crisis funding in accordance with guidelines adopted by the board of directors of the Foundation, developing educational and animal welfare programs, and otherwise assisting with the charitable purposes of the Association. At September 30, 2018 and 2017, respectively, the Association had a net receivable of approximately \$49,700 and \$13,700, respectively, due from the Foundation relating to reimbursement of costs, which is included in accounts receivable, net – related party in the accompanying statements of financial position. In addition, the Association's accounting department performs accounting functions for the Foundation at no cost.

The Association donated advertising in *The Cutting Horse Chatter* to the Foundation valued at approximately \$14,000 and \$22,000 for the years ended September 30, 2018 and 2017, respectively.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **P. Related-Party Transactions – continued**

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended September 30, 2018 and 2017, respectively, the Association received entry fees of approximately \$1,265,000 and \$1,324,000, respectively, from these affiliates.

Fees received from affiliates for use of the Association's show production software during years ended September 30, 2018 and 2017, were approximately \$39,000 and \$41,000, respectively. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During the years ended September 30, 2018 and 2017, show software costs of approximately \$64,000 and \$63,000, respectively, were reimbursed to affiliates. The Association pays insurance costs on behalf of the affiliates, which totaled approximately \$22,000 and \$26,000 for the years ended September 30, 2018 and 2017, respectively.

The Association established the NCHA Texas Events PAC entity (the "PAC") in 2008 to promote and celebrate the cutting horse by making an effort to impact legislation that will positively affect the equine industry. At September 30, 2018 and 2017, the Association had a payable of approximately \$85,000 and \$34,000, respectively, due to the PAC relating to donations collected from the Association's members on behalf of the PAC. The amount is included in accounts payable on the accompanying statements of financial position.

#### **Q. Commitments and Contingencies**

From time to time, the Association is involved in various lawsuits and claims arising in the normal course of business. In management's opinion, the ultimate outcome of these items will not have a material adverse effect on the Association's financial position or results of operations.

##### *Office Equipment Leases*

The Association leases certain office equipment under operating leases which mature in 2022. Rental expense under these leases approximated \$23,000 and \$19,000 for the years ended September 30, 2018 and 2017, respectively. Future minimum payments under non-cancelable operating leases for office equipment with initial terms of one year or more consisted of the following at September 30, 2018.

2019	\$ 20,000
2020	20,000
2021	20,000
2022	<u>15,000</u>
Total future commitments	<u>\$ 75,000</u>

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Q. Commitments and Contingencies – continued**

*Facility Leases*

The Association leases facilities from the city of Fort Worth under a ten-year operating lease, which matures in December 2028, for the purpose of holding the Super Stakes and Super Stakes Classic, Summer Cutting Spectacular, World Championship Futurity, and World Finals events each year. The amounts paid for the facilities rental under the lease were approximately \$438,000 and \$407,000 during the years ended September 30, 2018 and 2017, respectively.

The Association leases facilities in Jackson, Mississippi for the purpose of holding the annual Eastern National Championships event. The amounts paid for the facilities rental under the lease were approximately \$40,000 during the years ended September 30, 2018 and 2017.

The Association leases facilities in Denver, Colorado under a lease which matures in July 2019, for the purpose of holding the annual Western National Championships. The amounts paid for the facilities rental under the lease were approximately \$25,000 during the years ended September 30, 2018 and 2017.

The Association leases facilities in Scottsdale, Arizona under a lease which matured in May 2018, for the purpose of holding the Western Finals in 2017. The amounts paid for the facilities rental under the lease were approximately \$35,000 during the years ended September 30, 2018 and 2017.

The aggregate future minimum payments under non-cancelable operating leases for facility leases with initial terms of one year or more consisted of the following at September 30, 2018.

2019	\$ 390,000
2020	365,000
2021	387,000
2022	407,000
2023	417,000
Thereafter	<u>2,560,000</u>
Total future commitments	<u><u>\$ 4,526,000</u></u>

*Entry Fee Guarantees*

The Association guarantees all entry fees paid by contestants to show management (affiliates) representing cutting horse contests. During the years ended September 30, 2018 and 2017, respectively, the contestants must be members of the Association in good standing and the show must remit 8% of all entry fees to the Association. At September 30, 2018 and 2017, approximately \$400 and \$600, respectively, was a receivable from the contestants. In the opinion of management, the amount of ultimate liability with respect to these entry fees will not materially affect the financial position or results of operations of the Association.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **Q. Commitments and Contingencies – continued**

##### *Horse Auction Royalties*

During 2011, the Association entered into an agreement with Western Bloodstock, Ltd (“WB”), which was extended until January 1, 2020. WB will be the exclusive auction provider for all horse sales during events produced by the Association. In connection with the agreement, WB pays the Association the greater of 4% of annual gross sales, as defined by the agreement, or \$500,000, and also reimburses the Association for various expenses incurred in connection with the sale of horses. During the years ended September 30, 2018 and 2017, the Association received approximately \$594,000 and \$619,000 from WB, respectively, and recorded a receivable for approximately \$82,000 at September 30, 2017, in connection with the horse sales each year. These horse auction royalties are recorded in show and related activities revenue in the accompany statements of activities and changes in net assets. The royalties are received at the conclusion of the calendar year.

#### **R. Subsequent Events**

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through March 15, 2019, the date the financial statements were available for issuance.

**SUPPLEMENTAL INFORMATION**

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE I -  
SCHEDULES OF PROFESSIONAL FEES**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Attorneys	\$ 433,502	\$ 219,523
Auditing, tax, and other accounting services	91,709	77,040
Consulting - economic impact and review	6,045	23,000
Consulting - legislative	137,500	150,000
Consulting - marketing	209,001	94,002
Consulting - other	-	360
Total professional fees	<u>\$ 877,757</u>	<u>\$ 563,925</u>



**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE II -  
SCHEDULES OF SHOWS AND RELATED ACTIVITIES  
REVENUES AND EXPENSES**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>                    </u>	<u>                    </u>
Entry fees	\$ 9,457,900	\$ 9,330,036
Show fees	3,293,457	3,215,287
State of Texas incentive	2,491,641	2,275,810
Stalls and practice pens	1,737,841	1,917,343
Show sponsors	1,449,420	1,331,175
Horse auction royalties	594,420	700,872
Ticket sales	435,449	420,173
Tradeshow booth rental revenue	320,615	341,128
Addition incentive revenue	218,096	314,171
Miscellaneous revenue	131,944	216,473
Total shows and related activities revenues	<u>20,130,783</u>	<u>20,062,468</u>
Premiums paid	(10,043,028)	(9,920,978)
Cattle and related expenses	(1,971,300)	(2,071,285)
Equipment and facilities rental	(1,258,337)	(1,193,300)
Awards	(1,207,673)	(1,292,360)
Judges and show labor	(947,497)	(957,050)
Salaries, contract labor, benefits, and related taxes	(514,919)	(488,566)
Dirt and related expenses	(464,189)	(440,172)
Other show related expenses	(323,170)	(329,600)
Stall rental and practice pen expenses	(201,735)	(295,197)
Webcast expenses	(131,951)	(117,655)
Advertising expenses	(130,106)	(157,644)
Security and paramedics	(114,091)	(114,950)
Drug testing expenses	(98,049)	(96,610)
Coliseum preparation	(90,192)	(110,671)
Total shows and related activities expenses	<u>(17,496,237)</u>	<u>(17,586,038)</u>
Net show and related activities revenues and expenses	<u>\$ 2,634,546</u>	<u>\$ 2,476,430</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE III -  
SCHEDULES OF AFFILIATE AND INDEPENDENT PRODUCERS  
REVENUES AND EXPENSES**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>                    </u>	<u>                    </u>
Affiliate show fees	\$ 1,264,848	\$ 1,323,511
Affiliate software revenue	39,401	40,832
Senior world tour fees	20,341	18,599
Sponsorships	-	37,520
Total affiliate and independent producers revenues	<u>1,324,590</u>	<u>1,420,462</u>
Awards	(225,452)	(200,869)
Salaries, benefits, and other expenses	(195,059)	(167,000)
Judges and monitors	(145,416)	(127,000)
Affiliate software expense	(64,429)	(62,675)
Total affiliate and independent producers expenses	<u>(630,356)</u>	<u>(557,544)</u>
Net affiliate and independent producers revenues and expenses	<u>\$ 694,234</u>	<u>\$ 862,918</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE IV -  
SCHEDULES OF PROMOTION AND DEVELOPMENT  
REVENUES AND EXPENSES**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Sponsorships	\$ 924,218	\$ 1,165,707
Chatter advertisers and sponsors	344,209	633,952
Youth fundraising and other activities revenue	161,198	316,183
Miscellaneous revenue	75,669	104,411
Special projects	2,205	14,001
Total promotion and development revenues	<u>1,507,499</u>	<u>2,234,254</u>
Salaries, benefits and taxes	(465,223)	(692,230)
Postage and printing	(356,254)	(396,485)
Special projects	(231,429)	(264,303)
Contract labor	(176,814)	(116,809)
Youth activities expense	(193,433)	(293,898)
Advertising and promotion expenses	(120,716)	(147,545)
Other expenses	(35,778)	(103,529)
Youth awards	(9,588)	(6,727)
Total promotion and development expenses	<u>(1,589,235)</u>	<u>(2,021,526)</u>
Net promotion and development revenues and expenses	<u>\$ (81,736)</u>	<u>\$ 212,728</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE V -  
SCHEDULES OF MEMBERSHIP SERVICES REVENUE AND EXPENSES**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Membership dues revenue	\$ 705,517	\$ 703,451
Salaries, contract labor, benefits and taxes	(176,689)	(146,437)
Printing and postage	(45,292)	(38,254)
Other expenses	(1,188)	(3,186)
Total membership services expenses	<u>(223,169)</u>	<u>(187,877)</u>
Net membership services revenue and expenses	<u>\$ 482,348</u>	<u>\$ 515,574</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE VI -  
SCHEDULES OF OTHER REVENUES AND GENERAL  
AND ADMINISTRATIVE COSTS**

	<b>Year Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
	<u>          </u>	<u>          </u>
Convention registration	\$ 48,096	\$ 38,700
Donations and other miscellaneous income	54,486	62,193
Fines and protests	96,795	45,600
Horse records	6,687	9,010
Total other revenues	<u>206,064</u>	<u>155,503</u>
Bank and credit card fees	(228,190)	(243,506)
Contract labor	(95,376)	(180,216)
Convention expenses	(122,771)	(103,837)
Dues, fees and subscriptions	(121,940)	(75,436)
Hall of fame expenses	(68,218)	(14,713)
HUB expenses	(19,338)	(88,986)
Insurance	(129,976)	(116,611)
Music fees	(18,283)	(18,567)
Non-capital repairs and maintenance	(174,130)	(133,775)
Office supplies	(29,480)	(27,288)
Other expenses	(182,056)	(135,016)
Public and community relations	(13,009)	(22,286)
Rental	(23,620)	(24,372)
Travel	(31,570)	(68,350)
Utilities	(132,913)	(126,873)
Various committee expenses	(132,906)	(90,392)
Total other general and administrative costs	<u>(1,523,776)</u>	<u>(1,470,224)</u>
Net other revenues and general and administrative costs	<u>\$ (1,317,712)</u>	<u>\$ (1,314,721)</u>