

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

**Years Ended December 31, 2014 and 2013
with Report of Independent Auditors**

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

Table of Contents

Report of Independent Auditors	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	6
Notes to Financial Statements	7

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, a not-for-profit organization, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the 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; 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. 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 December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
June 9, 2015

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013
Assets		
Cash and cash equivalents (Note C)	\$ 2,177,917	\$ 2,278,357
Accounts receivable, net of allowance for doubtful accounts of \$13,745 and \$16,522, respectively	411,744	1,151,657
Accounts receivable - State of Texas incentives	1,618,339	1,954,775
Accrued interest receivable	52,735	46,313
Investments (Note D)	4,226,486	4,053,643
Inventories	33,636	4,266
Prepaid expenses and other assets	136,070	210,419
Property and equipment, net (Note E)	2,417,739	1,924,663
	\$11,074,666	\$11,624,093
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,115,924	\$ 1,328,065
Accounts payable - related party	78,625	-
Other accrued liabilities	105,937	95,058
Deferred revenue for future shows	481,207	477,520
Deferred revenue for stallion/ foal fees (Note K)	1,841,304	1,569,250
Deferred membership dues	811,126	779,800
Deferred revenue, other	28,750	125,250
Youth scholarship awards (Note F)	861,420	790,420
Liability for pension obligation (Note J)	-	215,189
Total liabilities	5,324,293	5,380,552
Commitments and contingencies (Note Q)		
Net assets:		
Unrestricted:		
Undesignated	4,291,106	4,464,749
Board designated for youth funds (Note F)	258,546	272,083
Total unrestricted	4,549,652	4,736,832
Temporarily restricted - State of Texas incentives (Note G)	1,200,721	1,506,709
Total net assets	5,750,373	6,243,541
Total liabilities and net assets	\$11,074,666	\$11,624,093

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31,	
	2014	2013
Unrestricted Net Assets		
Operating revenues and support:		
Show revenues and support:		
Entry fees	\$ 7,132,786	\$ 6,602,067
Show fees	4,095,321	4,133,310
Stall rentals and practice pen	1,456,097	1,512,474
Purse sponsors	123,461	15,551
Stallion subscription fees (Note K)	500,000	500,000
Booth exhibit rental	361,261	414,762
Tickets	526,568	533,825
Sponsorships	818,940	566,461
Affiliate income	187,862	290,319
Event facility allowances	424,132	370,865
Other show income (Note I)	69,775	19,325
Total show revenues and support	15,696,203	14,958,959
Department revenues and support:		
Advertising	1,379,130	1,575,705
Sponsorships	961,781	1,068,583
Affiliate income	1,209,482	1,215,707
Membership dues and fees	613,026	748,122
Horse auction royalties	723,762	621,118
Fund-raising events (Note N)	110,177	111,186
Marketing promotions	108,091	213,024
Other department income (Note I)	413,007	310,206
Total department revenues and support	5,518,456	5,863,651
Net assets released from restrictions-		
State of Texas incentives (Note G)	2,537,802	3,564,636
Total unrestricted operating revenues and support	23,752,461	24,387,246
Operating expenses:		
Show expenses:		
Premiums, including sire awards, and NCHA Weekend	8,400,774	7,757,724
Premiums from State of Texas incentives	2,168,500	3,178,000
Cattle	2,106,592	2,096,172
Judges and show personnel	910,940	896,276
Awards	1,237,023	1,053,936
Equipment and facilities rent	900,799	866,120
Coliseum preparation	349,735	327,388
Stall rentals and practice pen expenses	189,235	203,034
Advertising	169,055	89,998
Other show expenses (Note I)	579,285	484,481
Total show expenses	17,011,938	16,953,129

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - *continued*

	Year Ended December 31, 2014	2013
Operating expenses - continued:		
Department expenses:		
Salaries and benefits	\$ 2,356,124	\$ 2,226,073
Retirement expenses (Note J)	38,639	63,837
Affiliate Challenge and NCHA Weekend	93,619	78,342
Awards	263,115	364,951
Printing	391,608	402,429
Equipment and facilities rent	146,214	139,342
Monitor fees and expenses	148,147	140,317
Sponsor advertisements (non-cash)	578,652	611,431
Project, promotional, and public relations (Note L)	355,945	612,614
Advertising	217,261	370,642
Postage	129,406	198,644
Insurance	391,807	387,291
Payroll and ad valorem taxes	188,103	206,385
Professional fees (Note H)	456,640	597,002
Depreciation and amortization	136,762	146,946
Other department expenses (Note I)	1,040,881	1,027,583
Total department expenses	6,932,923	7,573,829
Total unrestricted operating expenses	23,944,861	24,526,958
Operating revenues net of operating expenses	(192,400)	(139,712)
Other unrestricted income:		
Interest and dividend income	151,974	156,155
Net realized investment losses	(95,230)	(26,407)
Gains on disposals of property and equipment	-	200
Total other unrestricted income	56,744	129,948
Change in unrestricted net assets from operations	(135,656)	(9,764)
Other unrestricted non-operating activities:		
Net unrealized gains (losses) in market value of investments	16,428	(91,338)
Pension Plan changes other than net periodic pension cost	(24,885)	28,651
Pension Plan settlement expense (Note J)	-	(163,435)
Executive director search expense (Note O)	-	(89,539)
IT project (Note O)	(43,067)	(93,858)
Total other unrestricted non-operating activities	(51,524)	(409,519)
Net decrease in unrestricted net assets	(187,180)	(419,283)
Temporarily Restricted Net Assets		
Restricted contributions-State of Texas incentives (Note G)	2,231,814	2,849,785
Net assets released from restrictions-State of Texas incentives (Note G)	(2,537,802)	(3,564,636)
Net decrease in temporarily restricted net assets	(305,988)	(714,851)
Net decrease in net assets	(493,168)	(1,134,134)
Net assets at beginning of year	6,243,541	7,377,675
Net assets at end of year	\$ 5,750,373	\$ 6,243,541

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	2013
Operating Activities		
Net decrease in net assets	\$ (493,168)	\$ (1,134,134)
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	136,762	146,946
Provision for bad debts	105,860	12,032
Gains on disposals of property and equipment	-	(200)
Net realized and unrealized losses on investments	78,802	117,745
Restricted contributions - State of Texas incentives	(2,231,814)	(2,849,785)
Effect of defined benefit pension plan changes	(24,885)	(134,784)
Changes in operating assets and liabilities:		
Accounts receivable	634,053	(447,301)
Accounts receivable - State of Texas incentives	336,436	2,346,605
Accrued interest receivable	(6,422)	5,754
Inventories	(29,370)	1,400
Prepaid expenses and other assets	74,349	3,188
Accounts payable and other accrued liabilities	(201,262)	(228,742)
Accounts payable - related party	78,625	-
Deferred revenue for future shows	3,687	(488,219)
Deferred revenue for stallion/ foal fees	272,054	454,900
Deferred membership dues	31,326	69,598
Deferred revenue, other	(96,500)	42,702
Youth scholarship awards	71,000	119,687
Liability for pension obligation	(190,304)	4,907
Net cash used in operating activities	(1,450,771)	(1,957,701)
Investing Activities		
Proceeds from sales of investments	1,418,839	1,513,645
Purchases of investments	(1,670,484)	(652,690)
Purchases of property and equipment	(629,838)	(117,840)
Net cash provided by (used in) investing activities	(881,483)	743,115
Financing Activities		
Restricted contributions-State of Texas incentives	2,231,814	2,849,785
Net cash provided by financing activities	2,231,814	2,849,785
Net increase (decrease) in cash and cash equivalents	(100,440)	1,635,199
Cash and cash equivalents at beginning of year	2,278,357	643,158
Cash and cash equivalents at end of year	\$ 2,177,917	\$ 2,278,357

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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 accounts for contributions in accordance with GAAP, which requires contributions received to be recorded 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.

The Association’s investment strategy is generally to hold investments to maturity. If a situation arises whereby there is a substantial gain in a security and there is an opportunity to reinvest the proceeds in a manner that will produce a similar yield, the Association may make the decision to sell the security and realize the gain.

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.

Inventories

Inventories consist primarily of trophies, DVDs, and videotapes, and are valued at the lower of cost or market with cost determined using the first-in, first-out method.

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.

Depreciation and amortization is 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.

Deferred Revenues and Deferred Membership Dues

Deferred revenue for membership dues and sponsorships represents money received in advance for future periods of activity. Deferred revenue for future shows represents entry fees received in the current period 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. It is the Association's policy to amortize lifetime membership dues over twelve years. Non-pro dues, first-class postage dues, and trainer fee dues received prior to year-end are generally amortized over one year.

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 2014 and 2013, net taxable unrelated business income was not significant and therefore, no provision for income taxes was recorded in the accompanying financial statements. The Association has net operating loss carryforwards of approximately \$109,000 that were generated in years prior to 2014 as a result of unrelated business income and expense activity. Such loss carryforwards will expire in years 2023 through 2032, if not utilized.

GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Management of the Association believes that it has not taken a tax position that, if challenged, would have a material effect on the financial statements. At December 31, 2014, the Association's tax returns related to the years ended December 31, 2011 through December 31, 2013 remain open to possible examination by tax authorities. No tax returns are currently under examination by any tax authorities. 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 under GAAP was not met.

Reclassification

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

C. Cash and Cash Equivalents

At December 31, cash and cash equivalents consisted of the following:

	2014	2013
Cash	\$ 1,388,165	\$ 213,204
Cash equivalents	789,752	2,065,153
Total cash and cash equivalents	\$ 2,177,917	\$ 2,278,357

At December 31, 2014 and 2013, cash equivalents were held by the Association's third-party investment advisor and were invested in short-term bond funds.

D. Investments

The cost and market value of investments held at December 31, are as follows:

	2014		2013	
	Cost	Market Value	Cost	Market Value
Certificates of deposit	\$ 3,827	\$ 3,827	\$ 3,827	\$ 3,827
Corporate bonds	3,020,428	2,966,682	3,103,750	3,031,472
Foreign bonds	950,883	945,783	396,662	392,889
Municipal bonds	314,816	310,194	629,300	625,455
Total investments	\$ 4,289,954	\$ 4,226,486	\$ 4,133,539	\$ 4,053,643

The market value of the Association's investments was based on Level 2 inputs, as defined by GAAP, which represent quoted prices for identical or similar assets or liabilities in inactive markets.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

D. Investments – continued

During the years ended December 31, net investment income, including realized and unrealized gains and losses, consisted of the following:

	2014	2013
Interest and dividend income	\$ 151,974	\$ 156,155
Net realized investment losses	(95,230)	(26,407)
Net unrealized gains (losses)	16,428	(91,338)
Investment management fees	(29,008)	(26,590)
Net investment income, including realized and unrealized gains and losses	\$ 44,164	\$ 11,820

E. Property and Equipment

At December 31, property and equipment consisted of the following:

	2014	2013
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,304,318	2,292,749
Automobiles and trailers	48,488	48,488
Office furniture and equipment	909,197	866,433
Software	575,505	-
Total property and equipment	3,977,296	3,347,458
Less accumulated depreciation	1,559,557	1,422,795
Property and equipment, net	\$ 2,417,739	\$ 1,924,663

At December 31, 2014, the Association capitalized in-house software development costs of \$575,505 which are currently still in development and therefore, no amortization of these costs was incurred during 2014. These systems are expected to be placed in service during 2015 at which time amortization will commence.

F. Unrestricted Net Assets – Board Designated for Youth Funds

As of December 31, 2014 and 2013, approximately \$259,000 and \$272,000 of net assets were 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. 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.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

G. Temporarily Restricted Net Assets – State of Texas Incentives

Based on approved applications, the State of Texas provides incentives to the City of Fort Worth for Association events held in the Fort Worth area. The City of Fort Worth, in turn, provides incentives to the Association that are restricted for the purpose of enhancing Association shows that qualify for the state incentives. Funds awarded for current Triple Crown events are restricted for use in qualifying shows. The temporarily restricted amounts were held in investments at December 31, 2014 and 2013. The following represents the incentives awarded by the State of Texas and amounts released from restriction as approved by the Executive Committee for the years ended December 31:

	2014	2013
Beginning Balance at January 1,	\$ 1,506,709	\$ 2,221,560
Super Stakes:		
State of Texas incentive contribution	613,475	895,010
Net assets released from restrictions	(733,086)	(895,582)
Derby (Summer Spectacular):		
State of Texas incentive contribution	762,130	725,318
Net assets released from restrictions	(679,473)	(876,295)
Futurity:		
State of Texas incentive contribution	856,209	1,229,457
Net assets released from restrictions	(1,125,243)	(1,792,759)
Ending balance at December 31,	\$ 1,200,721	\$ 1,506,709

H. Professional Fees

Professional fees, for the years ended December 31, were composed of the following:

	2014	2013
Actuarial services	\$ 69,659	\$ 62,710
Attorneys	151,230	261,781
Auditing, tax, and ballot counting services	55,179	57,564
Consulting - economic impact and review	92,545	52,010
Consulting – legislative	78,822	80,885
Consulting – marketing	8,254	28,877
Consulting – information technology	651	49,905
Consulting – other	300	3,270
Total professional fees	\$ 456,640	\$ 597,002

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

I. Other Income and Expenses

Other income and other expenses, for the years ended December 31, were composed of the following:

	<u>2014</u>	<u>2013</u>
Other show income:		
Convention tours	\$ 3,250	\$ -
DVD viewing	27,113	-
Show transfer fees	3,000	19,250
Scoreboard advertising	6,750	75
Webcast	29,662	-
	<u> </u>	<u> </u>
Total other show income	<u>\$ 69,775</u>	<u>\$ 19,325</u>
Other department income:		
Convention registration	\$ 23,800	\$ 18,255
Donations and other miscellaneous income	89,475	27,285
Electronic advertising and NCHA blog	14,175	17,910
Fines and protests	35,059	32,900
Horse records	5,685	12,281
Judges - seminars and fees	47,470	18,605
Royalties and affinity programs	197,343	182,970
	<u> </u>	<u> </u>
Total other department income	<u>\$ 413,007</u>	<u>\$ 310,206</u>
Other show expenses:		
Exhibit hall and show office supplies	\$ 205,525	\$ 160,361
Hospitality	112,063	102,014
Show postage, printing, and tickets	6,999	13,281
Show promotions	79,637	77,451
Show sponsor cost	3,960	24,460
Video production	63,146	-
Veterinarian expenses and drug testing	107,955	106,914
	<u> </u>	<u> </u>
Total other show expenses	<u>\$ 579,285</u>	<u>\$ 484,481</u>

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

I. Other Income and Expenses – continued

	2014	2013
Other department expenses:		
Bad debts	\$ 105,860	\$ 12,032
Bank fees and charges	19,549	19,646
Committee expenses	95,587	66,827
Contract labor	94,444	212,136
Convention expenses	96,263	77,046
Credit card fees	193,464	173,913
Dues, fees, and subscriptions	42,072	27,910
Feature stories	19,281	21,727
Investment management fees	29,008	26,590
Miscellaneous expenses	13,094	2,782
Office supplies	45,696	52,191
Repairs and maintenance	21,705	17,249
Scholarships	52,959	87,816
Travel	86,824	115,379
Utilities	100,580	92,995
Vehicle allowance	24,495	21,344
	\$ 1,040,881	\$ 1,027,583

J. Benefit Plans

The Association sponsored a defined benefit pension plan (the “Pension Plan”) covering all of its full-time employees hired prior to October 31, 2003. Pension benefits were based upon years of service and average compensation. The Association’s funding policy was to make annual contributions sufficient to meet at least the minimum funding standards of the Employee Retirement Income Security Act of 1974. In 2003, the Association froze the Pension Plan.

During 2010, the Executive Committee approved a plan to truncate the Pension Plan over a five-year period beginning in 2010. During 2013, the Executive Committee approved a plan to begin terminating the Pension Plan with a target termination date in 2014. The Association made contributions to the Pension Plan of \$285,000 during 2013. During 2014, the Association paid out all obligations associated with the Pension Plan.

The Association also sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. The Association matches 50% of employee contributions up to 3% of the employee's eligible compensation, as defined in the Deferred Plan documents. The Association at its discretion may also contribute an additional amount, as it deems necessary. During the years ended December 31, 2014 and 2013, the Association made matching contributions of approximately \$39,000 and \$40,000, respectively. The Association made no discretionary contributions to the Deferred Plan during 2014 and 2013.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

J. Benefit Plans – continued

Retirement expenses in the accompanying statements of activities and changes in net assets, for the years ended December 31, were comprised of the following:

	2014	2013
Deferred Plan matching contributions	\$ 38,639	\$ 39,933
Pension Plan net periodic pension costs	-	20,339
Pension Benefit Guaranty Corporation payments and fees	-	3,565
Total retirement expenses	\$ 38,639	\$ 63,837

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 that the resulting foals would be eligible to compete. The Stallion fee is \$2,500 (not including the \$100 insurance charge). The funds are held as deferred revenue and will be disbursed into the first show of eligibility for the resulting foals of each crop. Foals are also required to be nominated in the new program in order to compete in the Super Stakes. Foal nomination money is also held as deferred revenue and is also disbursed into the first year of eligibility for those foals at age 4. The foal nomination fee chart is below:

Foaling year (by deadline)	\$ 200
Weanling year (by deadline)	1,250
2 year old (by deadline)	7,500
3 year old and up	10,000

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 when the initial Stallion Fee funds are disbursed.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

K. Stallion/ Foal Fees – continued

The following table shows the detail of the funds as of December 31,:

	2014	2013
Stallion fees collected for the 2017 Super Stakes	\$ 446,698	\$ 472,000
Stallion fees collected for the 2018 Super Stakes	541,446	463,000
Stallion fees collected for the 2019 Super Stakes	366,600	428,500
Stallion fees collected for the 2020 Super Stakes	202,600	-
	1,557,344	1,363,500
Total stallion fees collected	1,557,344	1,363,500
Total advances to the Super Stakes	(1,500,000)	(1,000,000)
Net stallion fees	57,344	363,500
Foal fees collected for the 2015 Super Stakes	591,950	568,050
Foal fees collected for the 2016 Super Stakes	598,300	539,100
Foal fees collected for the 2017 Super Stakes	454,350	98,600
Foal fees collected for the 2018 Super Stakes	139,360	-
	1,783,960	1,205,750
Total foal fees collected	1,783,960	1,205,750
Deferred revenue for stallion/ foal fees	\$ 1,841,304	\$ 1,569,250

At December 31, 2014, total advances from the general fund to the Super Stakes were as follows:

Advance to the 2012 show	\$ 500,000
Advance to the 2013 show	500,000
Advance to the 2014 show	500,000
Total advances to the Super Stakes	\$ 1,500,000

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

L. Project, Promotional and Public Relations

Project, promotional and public relations expense, for the years ended December 31, were composed of the following:

	2014	2013
Affiliate software	\$ 59,250	\$ 68,250
Bus tours	-	888
Celebrity cutting	66	994
Daily chatter	31,800	25,729
Cutting academy clinics	17,564	21,447
NCHA blog	18,450	20,610
Other projects	6,290	2,879
Promotions	63,334	82,690
Public relations	16,226	17,050
Sponsor cutting	12,245	17,150
Television – Futurity	700	130,077
Television – other	11,724	-
Triple crown promotion	88,244	212,722
Youth projects	30,052	12,128
Total project, promotional and public relations expense	\$ 355,945	\$ 612,614

M. Concentrations

Entry fees, purse sponsorships, and other monies collected in advance of future shows are invested in money market accounts, certificates of deposit, and various fixed income securities, which consist of liquid assets in various financial institutions.

At December 31, 2014 and 2013, approximately 80% and 63%, respectively, of the Association's 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, net of any direct operating costs, as revenues in the accompanying statements of activities and changes in net assets which approximated \$110,000 and \$111,000 during 2014 and 2013, respectively. There were no direct costs relating to fund-raising events in 2014 or 2013.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

O. Unrestricted Non-Operating Activities

During 2013, the Association incurred expenses relating to the search for the new executive director and the planning stages of an information technology project for developing in-house software which approximated \$90,000 and \$94,000, respectively. During 2014, the Association incurred expenses of approximately \$43,000 for planning costs associated with developing a new website. 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 December 31, 2014 and 2013, the Association had a receivable of approximately \$53,000 and \$7,000, respectively, due from the Foundation relating to reimbursement of costs. 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 \$24,000 and \$28,000 for the years ended December 31, 2014 and 2013, respectively.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended December 31, 2014 and 2013, the Association received entry fees of approximately \$1,346,000 and \$1,461,000, respectively, from these affiliates.

Fees received from affiliates for use of the Association's show production software during 2014 and 2013 was approximately \$51,000 and \$45,000, respectively. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During 2014 and 2013, show software costs of approximately \$59,000 and \$68,000, respectively, were reimbursed to affiliates.

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 December 31, 2014, the Association had a receivable of approximately \$25,000 due from the PAC relating to reimbursement of costs. In addition, the Association had a payable of approximately \$79,000 due to the PAC relating to donations collected from NCHA members on behalf of the PAC.

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.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

Q. Commitments and Contingencies – continued

The Association guarantees all entry fees paid by contestants to show management (affiliates) representing cutting horse contests. During 2014 and 2013, the contestants must be members of the Association in good standing and the show must remit 8% of all entry fees to the Association. As of December 31, 2014 and 2013, approximately \$300 and \$425, respectively, was still 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 operations of the Association.

The Association leases certain office equipment, with annual rental payments of approximately \$19,000, which matures in January through March 2018. Annual rental expense under this lease approximated \$19,000 and \$5,000 for each of the years ended December 31, 2014 and 2013, respectively. Minimum annual lease payments approximate \$19,000 for 2015 through 2017 and \$1,000 for 2018.

The Association leases facilities from the City of Fort Worth under a five-year operating lease, which initially matured in May 2011, for the purpose of holding the Super Stakes, Summer Spectacular, World Championship Futurity, and World Finals events each year. On January 1 of each year beginning in 2008, one additional year will be automatically added to the end of the initial five-year term of this lease agreement unless written notice is given by either party prior to January 1. At December 31, 2014, the Association is obligated to continue under this lease until May 2017. The amount paid during 2014 and 2013 for the facilities rental under the lease was approximately \$373,000 and \$385,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for 2015 through 2017.

The Association entered into an operating lease for the rental of facilities in Jackson, Mississippi for the annual Eastern National Championships event which matured in March of 2013. The Association entered into an extension agreement for the 2014 and 2015 events. The amounts paid during 2014 and 2013 for the facilities rental was \$40,000 each year. Minimum rentals, on an annual basis, are approximately \$40,000 for 2015.

The Association leased facilities from the National Western Complex in Denver, Colorado for the annual Western National Championships event for 2014 and 2016. The amount paid during 2014 for the facilities rental under the lease was approximately \$25,000 and the minimum annual lease payments are approximately \$25,000 for 2016. The Association entered into an operating lease for the facilities in Reno, Nevada for the annual Western National Championships event to be held in 2015. The lease matures in May of 2015 with the minimum annual lease payment of approximately \$30,000 for 2015.

During 2011, the Association entered into an agreement with Western Bloodstock, Ltd (“WB”), which is in effect until January 1, 2016. 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 2014 and 2013, the Association received approximately \$724,000 and \$621,000 from WB in connection with the horse sales and these amounts are recorded in horse auction royalties in the accompany statements of activities and changes in net assets.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

R. Subsequent Events

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through June 9, 2015, the date the financial statements were available for issuance. The Association approved a change to its fiscal year-end from December 31st to September 30th, which will be effective in 2015. This change was made in order for the Association to better illustrate the operating cycle. There will be audited financial statements of the Association presented for the short period ending September 31, 2015.