

**NATIONAL CUTTING
HORSE ASSOCIATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

**Years Ended September 30, 2017 and 2016
with Report of Independent Auditors**

**NATIONAL CUTTING
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SUPPLEMENTAL INFORMATION**

Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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. 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, 2017 and 2016, and the results of its activities 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 21-26 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Fort Worth, Texas
January 22, 2018

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 4,314,474	\$ 1,892,153
Accounts receivable, net of allowance for doubtful accounts of \$7,513 and \$11,546, respectively	281,750	271,778
Accounts receivable - State of Texas incentives	457,155	1,794,504
Investments	6,891,563	6,434,814
Prepaid expenses and inventories	362,584	438,725
Property and equipment, net	3,560,650	3,844,172
 Total assets	 \$ 15,868,176	 \$ 14,676,146
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 444,950	\$ 269,965
Other accrued liabilities	298,155	241,320
Deferred revenue for future shows	3,330,479	3,249,083
Deferred revenue for stallion/ foal fees	2,317,497	2,169,782
Deferred membership dues	475,055	514,320
Deferred revenue, other	246,250	154,021
Youth scholarships	1,038,217	960,260
Total liabilities	8,150,603	7,558,751
 Net assets:		
Unrestricted	5,859,557	5,259,325
Unrestricted: Board designated for youth activities	332,824	332,878
Temporarily restricted for Triple Crown events	1,525,192	1,525,192
Total net assets	7,717,573	7,117,395
 Total liabilities and net assets	 \$ 15,868,176	 \$ 14,676,146

See accompanying notes to financial statements.

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

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	Revenue	Expense	Increase (Decrease)	Revenue	Expense	Increase (Decrease)
Unrestricted Net Assets						
Revenue Producing Operating Activities						
Shows and related activities	\$ 20,032,128	\$ 17,555,698	\$ 2,476,430	\$ 19,570,255	\$ 17,275,492	\$ 2,294,763
Affiliate and independent producers activities	1,420,462	557,544	862,918	1,437,508	707,492	730,016
Promotion and development	2,913,106	2,794,380	118,726	3,243,793	2,840,096	403,697
Member services	703,451	187,877	515,574	781,250	176,319	604,931
Total revenue producing activities	<u>25,069,147</u>	<u>21,095,499</u>	<u>3,973,648</u>	<u>25,032,806</u>	<u>20,999,399</u>	<u>4,033,407</u>
General and Administrative Operating Costs						
Salary, benefits and related taxes (unallocated)	-	1,343,747	(1,343,747)	-	1,327,863	(1,327,863)
Real estate taxes	-	38,290	(38,290)	-	40,259	(40,259)
Professional fees	-	469,923	(469,923)	-	442,623	(442,623)
Depreciation and amortization	-	505,988	(505,988)	-	120,110	(120,110)
Other revenue and general and administrative costs	121,096	1,435,979	(1,314,883)	124,609	1,120,220	(995,611)
Total general and administrative costs	<u>121,096</u>	<u>3,793,927</u>	<u>(3,672,831)</u>	<u>124,609</u>	<u>3,051,075</u>	<u>(2,926,466)</u>
Increase from operations	<u>25,190,243</u>	<u>24,889,426</u>	<u>300,817</u>	<u>25,157,415</u>	<u>24,050,474</u>	<u>1,106,941</u>
Non-operating Activities						
Investment activity	340,008	658	339,350	399,708	124,137	275,571
Website development	-	39,989	(39,989)	-	72,107	(72,107)
Total non-operating activities	<u>340,008</u>	<u>40,647</u>	<u>299,361</u>	<u>399,708</u>	<u>196,244</u>	<u>203,464</u>
Increase in unrestricted net assets	<u>25,530,251</u>	<u>24,930,073</u>	<u>600,178</u>	<u>25,557,123</u>	<u>24,246,718</u>	<u>1,310,405</u>
Total net increase in net assets	<u>\$ 25,530,251</u>	<u>\$ 24,930,073</u>	<u>600,178</u>	<u>\$ 25,557,123</u>	<u>\$ 24,246,718</u>	<u>1,310,405</u>
Net assets at beginning of the year			<u>7,117,395</u>			<u>5,806,990</u>
Net assets at the end of the year			<u>\$ 7,717,573</u>			<u>\$ 7,117,395</u>

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2017	2016
Operating Activities		
Net increase in net assets	\$ 600,178	\$ 1,310,405
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	505,988	120,110
Loss on disposal of property and equipment	-	16,237
Provision for bad debt	9,630	14,180
Net realized and unrealized gains on investments	(87,130)	(126,831)
Changes in operating assets and liabilities:		
Accounts receivable	(19,602)	(121,412)
Accounts receivable - State of Texas incentives	1,337,349	1,160,992
Prepaid expenses and inventories	76,141	(13,216)
Accounts payable and other accrued liabilities	231,820	(286,806)
Deferred revenue for future shows	81,396	(774,593)
Deferred revenue for stallion / foal fees	147,715	206,728
Deferred membership dues	(39,265)	(586)
Deferred revenue, other	92,229	83,137
Youth scholarship awards	77,957	64,088
Net cash provided by operating activities	3,014,406	1,652,433
Investing Activities		
Proceeds from sale of investments	1,948,593	12,460,571
Purchases of investments	(2,318,212)	(13,182,671)
Purchases of property and equipment	(222,466)	(975,059)
Net cash used in investing activities	(592,085)	(1,697,159)
Net increase (decrease) in cash and cash equivalents	2,422,321	(44,726)
Cash and cash equivalents at beginning of year	1,892,153	1,936,879
Cash and cash equivalents at end of year	\$ 4,314,474	\$ 1,892,153

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

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.

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 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. 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, 2017 and 2016, 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, 2017 and 2016, 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.

C. Cash and Cash Equivalents

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

	2017	2016
Cash	\$ 3,392,338	\$ 1,360,066
Cash equivalents	922,136	532,087
Total cash and cash equivalents	\$ 4,314,474	\$ 1,892,153

As of September 30, 2017 and 2016, respectively, cash equivalents were held by the Association's third-party investment advisor and were invested in short-term bond 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,:

	2017	2016
2015 Futurity	\$ -	\$ 845,910
2016 Super Stakes	-	529,422
2016 Summer Spectacular	-	419,172
2017 Summer Spectacular	457,155	-
Total accounts receivable – state of Texas incentives	\$ 457,155	\$ 1,794,504

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

E. Investments

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

	2017		2016	
	Cost	Market Value	Cost	Market Value
Mutual funds – bonds	\$ 3,521,305	\$ 3,520,393	\$ 2,538,320	\$ 2,577,220
Mutual funds – equities	2,337,687	2,540,234	1,428,099	1,466,215
Bond funds	-	-	1,515,846	1,536,872
Corporate bonds	712,270	724,920	716,149	745,014
Foreign bonds	105,547	106,016	107,674	109,493
Total investments	\$ 6,676,809	\$ 6,891,563	\$ 6,306,088	\$ 6,434,814

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

	Level 1	Level 2	Total
Mutual funds – bonds ^(a)	\$ 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
Total investments	\$ 6,060,627	\$ 830,936	\$ 6,891,563

^(a) At September 30, 2017, approximately \$2,229,000 of the mutual fund – bonds investments are held in the stallion/foal fees investment account. Also, see Note K.

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds – bonds	\$ 2,577,220	\$ -	\$ 2,577,220
Mutual funds – equities:			
Growth	311,332	-	311,332
Equity	308,203	-	308,203
Mid-cap	231,855	-	231,855
International	211,080	-	211,080
Small cap	119,732	-	119,732
Credit	113,946	-	113,946
Emerging markets	94,837	-	94,837
Real estate	75,230	-	75,230
Bond funds	-	1,536,872	1,536,872
Corporate bonds	-	745,014	745,014
Foreign bonds	-	109,493	109,493
Total investments	<u>\$ 4,043,435</u>	<u>\$ 2,391,379</u>	<u>\$ 6,434,814</u>

The market value of the Association’s mutual funds are considered Level 1 as the investments have readily available quoted prices in active markets. The market value of the Association’s short-term bond funds and various fixed income securities are 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>2017</u>	<u>2016</u>
Interest and dividend income	\$ 252,878	\$ 174,072
Net realized investment gains (losses)	1,102	(98,805)
Net unrealized gains	86,028	225,636
Investment management fees	(658)	(25,332)
Total investment activity	<u>\$ 339,350</u>	<u>\$ 275,571</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>2017</u>	<u>2016</u>
Prepaid expenses	\$ 356,126	\$ 425,046
Inventories	<u>6,458</u>	<u>13,679</u>
Total prepaid expenses and inventories	<u>\$ 362,584</u>	<u>\$ 438,725</u>

G. Property and Equipment

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

	<u>2017</u>	<u>2016</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	917,506	915,342
Software	<u>2,396,461</u>	<u>2,176,159</u>
Total property and equipment	5,821,008	5,598,542
Less accumulated depreciation	<u>(2,260,358)</u>	<u>(1,754,370)</u>
Property and equipment, net	<u>\$ 3,560,650</u>	<u>\$ 3,844,172</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 year ended September 30, 2017, the Association amortized approximately \$399,000 related to the HUB. For the year ended September 30, 2016, there was no amortization expense.

H. Unrestricted Net Assets – Designated for Youth Funds

As of September 30, 2017 and 2016, respectively, approximately \$333,000 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.

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. The temporarily restricted amounts were held in investments at September 30, 2017 and 2016. The temporarily restricted incentives awarded by the state of Texas at both September 30, 2017 and 2016, was \$1,525,192.

J. Benefit Plans

The Association sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. Beginning in January 2016, 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. Prior to January 2016 the Association would match 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 September 30, 2017 and 2016, the Association made matching contributions of approximately \$70,000 and \$69,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the years ended September 30, 2017 and 2016.

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 chart is below:

October 1st prior to Breeding Year	\$	2,600
Prior to December 31 st of Breeding Year		3,600
Prior to December 31 st of the Foals Weanling Year		4,600
Prior to December 31 st of the Foals Yearling Year		6,000
Prior to December 31 st of the Foals 2 Year Old Year		7,500
Prior to December 31 st 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, 2017, the remaining balance to be disbursed to the general fund is \$1,250,000.

The following table shows the detail of the funds at:

	September 30,	
	2017	2016
Stallion fees collected for the 2017 Super Stakes	\$ -	\$ 431,700
Stallion fees collected for the 2018 Super Stakes	475,000	498,450
Stallion fees collected for the 2019 Super Stakes	432,500	449,800
Stallion fees collected for the 2020 Super Stakes	343,500	330,400
Stallion fees collected for the 2021 Super Stakes	347,997	329,897
Stallion fees collected for the 2022 Super Stakes	315,600	140,000
Stallion fees collected for the 2023 Super Stakes	95,100	-
Total stallion fees collected	2,009,697	2,180,247
Total advances to the Super Stakes	(1,250,000)	(1,500,000)
Net stallion fees	759,697	680,247
Foal fees collected for the 2017 Super Stakes	-	486,925
Foal fees collected for the 2018 Super Stakes	523,100	498,810
Foal fees collected for the 2019 Super Stakes	509,300	473,800
Foal fees collected for the 2020 Super Stakes	499,800	30,000
Foal fees collected for the 2021 Super Stakes	25,600	-
Total foal fees collected	1,557,800	1,489,535
Deferred revenue for stallion/ foal fees	\$ 2,317,497	\$ 2,169,782

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

K. Stallion/ Foal Fees – continued

At September 30, 2017, 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	<u>(250,000)</u>
Remaining total advances to the Super Stakes	<u>\$ 1,250,000</u>

At September 30, 2017, the Association held the deferred stallion/foal fees in a separate investment account which had a balance approximating \$3,436,000. At September 30, 2017, approximately \$376,000 of the total 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 \$3,060,000 is classified in investments in the accompanying statements of financial position at September 30, 2017.

L. 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, 2017 and 2016, approximately 62% and 87%, 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.

M. 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 promotion and development revenues in the accompanying statements of activities and changes in net assets which approximated \$227,000 and \$250,000 during the years ended September 30, 2017 and 2016, respectively. There was approximately \$96,000 and \$133,000 of direct costs related to fund-raising events during the years ended September 30, 2017 and 2016, respectively.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

N. Unrestricted Non-Operating Activities

The Association incurred expenses of approximately \$40,000 and \$72,000, respectively, for the years ended September 30, 2017 and 2016, 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.

O. 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, 2017 and 2016, respectively, the Association had a receivable of approximately \$13,700 and \$1,600, respectively, due from the Foundation relating to reimbursement of costs, which is included in accounts receivable 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 \$22,000 and \$27,000 for the years ended September 30, 2017 and 2016, respectively.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended September 30, 2017 and 2016, respectively, the Association received entry fees of approximately \$1,324,000 and \$1,343,000, respectively, from these affiliates.

Fees received from affiliates for use of the Association's show production software during years ended September 30, 2017 and 2016, were approximately \$41,000 and \$36,000, respectively. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During the years ended September 30, 2017 and 2016, show software costs of approximately \$63,000 and \$57,000, respectively, were reimbursed to affiliates. The Association pays insurance costs on behalf of the affiliates which totaled approximately \$26,000 and \$27,500 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, the Association had a payable of approximately \$34,000 and \$41,000, respectively, due to the PAC relating to donations collected from the Association's members on behalf of the PAC.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

P. 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.

The Association guarantees all entry fees paid by contestants to show management (affiliates) representing cutting horse contests. During the years ended September 30, 2017 and 2016, 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, 2017 and 2016, approximately \$600 and \$400, 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.

The Association leases certain office equipment, with annual rental payments of approximately \$19,000, which matures in January through March 2018. Rental expense under this lease approximated \$19,000 for the years ended September 30, 2017 and 2016, respectively. Minimum annual lease payments approximate \$7,000 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 September 30, 2017, the Association is obligated to continue under this lease until December 2020. The amount paid during the years ended September 30, 2017 and 2016, for the facilities rental under the lease was approximately \$407,000 and \$379,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for 2018 through 2019 and approximately \$134,000 for 2020.

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 2017. The amounts paid during the years ended September 30, 2017 and 2016, respectively for the facilities rental was \$40,000 each year.

The Association entered into an operating lease for the facilities in Denver, Colorado for the annual Western National Championships in 2016. The amount paid during the year ended September 30, 2017, was \$25,000. The Association entered into an extension agreement for the 2018 and 2019 events. The minimum annual lease payments are approximately \$25,000 for both 2018 and 2019, respectively. The Association entered into an operating lease for the facilities in Scottsdale, Arizona for the Western Finals in 2017. The agreement matures in May 2018 with an optional one year extension which the Association expects to extend. The minimum annual lease payments are approximately \$35,000 for 2018 through 2019.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

P. Commitments and Contingencies – continued

During 2011 the Association entered into an agreement with Western Bloodstock, Ltd (“WB”), 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, 2017 and 2016, the Association received approximately \$619,000 and \$698,000 from WB, respectively, and accrued for approximately \$82,000 and \$68,000, respectively, 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.

Q. Subsequent Events

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through January 22, 2018, the date the financial statements were available for issuance.

SUPPLEMENTAL INFORMATION

NATIONAL CUTTING HORSE ASSOCIATION

**SCHEDULE I -
SCHEDULES OF PROFESSIONAL FEES**

	Year Ended September 30,	
	2017	2016
	<u> </u>	<u> </u>
Attorneys	\$ 219,523	\$ 140,100
Auditing, tax, and other accounting services	77,040	93,651
Consulting - economic impact and review	23,000	35,000
Consulting - legislative	150,000	150,000
Consulting - marketing	-	14,734
Consulting - other	360	9,138
	<u> </u>	<u> </u>
Total professional fees	<u>\$ 469,923</u>	<u>\$ 442,623</u>

NATIONAL CUTTING HORSE ASSOCIATION

SCHEDULE II -

SCHEDULES OF SHOWS AND RELATED ACTIVITIES

REVENUES AND EXPENSES

	Year Ended September 30,	
	2017	2016
	<u> </u>	<u> </u>
Entry fees	\$ 9,330,036	\$ 8,506,155
Show fees	3,215,287	3,119,702
Stalls and practice pens	1,917,343	1,857,962
State of Texas incentive	2,275,810	1,794,504
Show Sponsors	1,331,175	1,373,940
Horse auction royalties	700,872	765,550
Ticket sales	420,173	493,568
Tradeshow booth rental revenue	341,128	331,646
Addition incentive revenue	314,171	318,142
Miscellaneous revenue	186,133	178,586
Slot cutting	-	830,500
	<u> </u>	<u> </u>
Total shows and related activities revenues	20,032,128	19,570,255
Premiums paid	(9,920,978)	(9,126,374)
Cattle and related expenses	(2,071,285)	(2,049,207)
Awards	(1,292,360)	(1,319,701)
Equipment and facilities rental	(1,193,300)	(1,186,165)
Judges and show labor	(926,710)	(834,521)
Slot cutting	-	(778,196)
Salaries, contract labor, benefits and related taxes	(488,566)	(533,900)
Dirt and related expenses	(440,172)	(391,207)
Stall rental and practice pen expenses	(295,197)	(209,220)
Advertising expenses	(157,644)	(133,215)
Drug testing expenses	(96,610)	(103,146)
Coliseum preparation	(110,671)	(101,838)
Security and paramedics	(114,950)	(100,078)
Webcast expenses	(117,655)	(89,414)
Other show related expenses	(329,600)	(319,310)
	<u> </u>	<u> </u>
Total shows and related activities expenses	(17,555,698)	(17,275,492)
Net show and related activities revenues and expenses	<u> \$ 2,476,430</u>	<u> \$ 2,294,763</u>

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended September 30,	
	2017	2016
	<u> </u>	<u> </u>
Affiliate show fees	\$ 1,323,511	\$ 1,341,690
Sponsorships	37,520	37,520
Affiliate software revenue	40,832	35,625
Senior world tour fees	18,599	22,673
Total affiliate and independent producers revenues	<u>1,420,462</u>	<u>1,437,508</u>
Awards	(200,869)	(262,726)
Salaries, benefits and other expenses	(167,000)	(192,904)
Judges and monitors	(127,000)	(129,123)
NCHA weekend	-	(65,964)
Affiliate software expense	(62,675)	(56,775)
Total affiliate and independent producers expenses	<u>(557,544)</u>	<u>(707,492)</u>
Net affiliate and independent producers revenues and expenses	<u>\$ 862,918</u>	<u>\$ 730,016</u>

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended September 30,	
	2017	2016
	<u> </u>	<u> </u>
Chatter advertisers and sponsors	\$ 1,312,856	\$ 1,364,525
Sponsorships	1,165,707	1,302,563
Youth fundraising and other activities revenue	316,917	400,249
Miscellaneous revenue	104,411	152,821
Special projects	13,215	23,635
Total promotion and development revenues	<u>2,913,106</u>	<u>3,243,793</u>
Advertising and promotion expenses	(826,449)	(892,106)
Salaries, benefits and taxes	(692,230)	(691,779)
Postage and printing	(396,485)	(413,810)
Special projects	(264,303)	(340,953)
Youth activities expense	(293,846)	(305,058)
Contract labor	(116,809)	(58,660)
Youth awards	(6,727)	(31,108)
Other expenses	(197,531)	(106,622)
Total promotion and development expenses	<u>(2,794,380)</u>	<u>(2,840,096)</u>
Net promotion and development revenues and expenses	<u><u>\$ 118,726</u></u>	<u><u>\$ 403,697</u></u>

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended September 30,	
	2017	2016
Membership dues revenue	\$ 703,451	\$ 781,250
Salaries, contract labor, benefits and taxes	(146,437)	(139,493)
Printing and postage	(38,254)	(33,108)
Other expenses	(3,186)	(3,718)
Total membership services expenses	<u>(187,877)</u>	<u>(176,319)</u>
Net membership services revenue and expenses	<u>\$ 515,574</u>	<u>\$ 604,931</u>

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended September 30,	
	2017	2016
	<u> </u>	<u> </u>
Convention registration	\$ 38,700	\$ 45,300
Donations and other miscellaneous income	27,786	52,883
Fines and protests	45,600	18,235
Horse records	9,010	8,191
Total other revenues	<u>121,096</u>	<u>124,609</u>
Bank and credit card fees	(243,506)	(251,293)
Contract labor	(180,216)	(20,017)
Non-capital repairs and maintenance	(133,775)	(151,870)
Utilities	(126,873)	(137,933)
Insurance	(116,611)	(116,099)
Convention expenses	(103,837)	(111,528)
Other expenses	(100,835)	(6,639)
Various committee expenses	(90,392)	(94,150)
HUB expenses	(88,986)	-
Dues, fees and subscriptions	(75,436)	(71,270)
Travel	(68,286)	(21,454)
Office supplies	(27,288)	(33,711)
Rental	(24,372)	(26,644)
Public and community relations	(22,286)	(52,442)
Music fees	(18,567)	(14,444)
Hall of fame expenses	(14,713)	(10,726)
Total other general and administrative costs	<u>(1,435,979)</u>	<u>(1,120,220)</u>
Net other revenues and general and administrative costs	<u>\$ (1,314,883)</u>	<u>\$ (995,611)</u>