



National Cutting Horse Association and Affiliate

**Consolidated Financial Statements
September 30, 2020 and 2019**

National Cutting Horse Association and Affiliate

Contents

Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Independent Auditors' Report

To the Board of Directors of
National Cutting Horse Association

We have audited the accompanying consolidated financial statements of National Cutting Horse Association and Affiliate (nonprofit organizations), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Cutting Horse Association and Affiliate as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Sutton Frost Cary
A Limited Liability Partnership

Arlington, Texas
January 27, 2022

National Cutting Horse Association and Affiliate
Consolidated Statements of Financial Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash	\$ 3,136,600	\$ 1,639,044
Restricted cash - PAC	111,864	124,939
Investments	8,325,510	8,991,608
Accounts receivable, net	336,959	158,290
Accounts receivable - State of Texas incentives	1,787,484	2,233,613
Accounts receivable - related party	37,776	78,289
Insurance receivable	653,144	-
Prepaid expenses	320,665	248,896
Total current assets	14,710,002	13,474,679
Property and equipment, net	1,527,644	1,899,663
Total assets	\$ 16,237,646	\$ 15,374,342
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 433,711	\$ 663,167
Deferred revenue for future shows	3,396,881	2,865,641
Deferred revenue for stallion/foal fees	3,607,397	2,522,897
Deferred membership dues	315,479	373,744
Deferred sponsorship revenue	239,590	370,500
Youth scholarships	-	1,060,984
Total current liabilities	7,993,058	7,856,933
Net assets:		
Net asset without donor restrictions:		
Undesignated	7,696,965	6,874,402
Board designated for youth fund	390,132	371,182
Total net assets without donor restrictions	8,087,097	7,245,584
Net assets with donor restrictions	157,491	271,825
Total net assets	8,244,588	7,517,409
Total liabilities and net assets	\$ 16,237,646	\$ 15,374,342

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Activities
Years Ended September 30, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions:		
Revenue and support:		
Shows and related activities	\$ 12,503,346	\$ 19,167,660
Affiliate and independent producers activities	1,078,790	1,297,008
Promotion and development	1,061,609	1,171,912
Member services	695,910	755,811
In-kind contributions	211,864	231,192
Other income	769,639	121,669
Investment income, net	411,856	366,224
Total revenue and support	16,733,014	23,111,476
Net assets released from restrictions:		
Satisfaction of donor restriction	259,407	250,460
Total revenue and support, net	16,992,421	23,361,936
Expenses		
Member services	591,700	795,032
Events	11,102,205	17,181,547
General and administrative	3,511,601	3,976,626
Promotion and development	945,402	1,105,365
Total expenses	16,150,908	23,058,570
Increase in net assets without donor restrictions	841,513	303,366
Changes in net assets with donor restrictions:		
PAC contributions	145,073	269,103
Net assets released from restrictions	(259,407)	(250,460)
Increase (decrease) in net assets with donor restrictions	(114,334)	18,643
Change in net assets	727,179	322,009
Net assets at beginning of year	7,517,409	7,195,400
Net assets at end of year	\$ 8,244,588	\$ 7,517,409

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2020

	Program			General and Administrative	Promotion and Development	Total
	Member Services	Events	Total			
Salaries, taxes and benefits	\$ 421,328	\$ 403,538	\$ 824,866	\$ 1,309,943	\$ 411,281	\$ 2,546,090
Awards	22,655	593,554	616,209	324	-	616,533
Bank fees	-	-	-	343,737	-	343,737
Cattle	-	1,198,202	1,198,202	-	-	1,198,202
Contract labor	23,256	1,900	25,156	66,898	53,266	145,320
Committees	-	-	-	67,816	-	67,816
Convention	28,395	-	28,395	10,124	-	38,519
Depreciation and amortization	700	-	700	488,074	-	488,774
Dues and subscriptions	61	55	116	18,007	1,605	19,728
In-kind	-	211,864	211,864	-	-	211,864
Insurance	-	68,450	68,450	138,278	-	206,728
Judges and show labor	-	472,851	472,851	-	-	472,851
Office supplies	3,750	3,133	6,883	13,436	33,245	53,564
Other	5,747	2,057,369	2,063,116	18,783	35,710	2,117,609
PAC lobbying and contributions	-	-	-	259,407	-	259,407
Printing and postage	46,797	1,118	47,915	50,998	80,340	179,253
Professional fees	3,636	142,167	145,803	335,262	315,555	796,620
Premiums paid	-	5,899,700	5,899,700	-	-	5,899,700
Rent	-	500	500	59,982	-	60,482
Repairs and maintenance	-	3,572	3,572	69,818	-	73,390
Scholarships	12,750	-	12,750	-	-	12,750
Special projects	14,517	40,752	55,269	-	384	55,653
Property taxes	-	-	-	56,365	-	56,365
Technology and software	-	-	-	117,796	7,562	125,358
Travel	8,108	3,480	11,588	6,368	6,454	24,410
Utilities	-	-	-	80,185	-	80,185
	<u>\$ 591,700</u>	<u>\$ 11,102,205</u>	<u>\$ 11,693,905</u>	<u>\$ 3,511,601</u>	<u>\$ 945,402</u>	<u>\$ 16,150,908</u>

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2019

	Program			General and Administrative	Promotion and Development	Total
	Member Services	Events	Total			
Salaries, taxes and benefits	\$ 417,111	\$ 509,697	\$ 926,808	\$ 1,239,748	\$ 383,003	\$ 2,549,559
Approved shows	-	22,100	22,100	-	-	22,100
Awards	-	697,214	697,214	17,584	-	714,798
Bank fees	-	-	-	231,465	-	231,465
Cattle	-	1,883,309	1,883,309	-	-	1,883,309
Contract labor	34,071	3,729	37,800	51,816	165,251	254,867
Committees	-	-	-	108,575	-	108,575
Convention	199,297	-	199,297	10,917	-	210,214
Depreciation and amortization	-	-	-	877,632	-	877,632
Dues and subscriptions	150	10	160	66,465	9,246	75,871
In-kind	-	231,192	231,192	-	-	231,192
Insurance	-	-	-	170,625	-	170,625
Judges and show labor	-	1,025,673	1,025,673	-	-	1,025,673
Office supplies	3,335	2,355	5,690	29,272	6,182	41,144
Other	92,145	1,772,137	1,864,282	45,375	33,811	1,943,468
PAC lobbying and contributions	-	-	-	250,460	-	250,460
Printing and postage	24,058	953	25,011	11,869	266,399	303,279
Professional fees	-	-	-	491,985	216,000	707,985
Premiums paid	-	9,798,243	9,798,243	-	-	9,798,243
Rent	-	1,203,165	1,203,165	48,039	-	1,251,204
Repairs and maintenance	-	7,171	7,171	71,306	-	78,477
Scholarships	9,598	-	9,598	-	-	9,598
Special projects	11,971	23,190	35,161	-	3,097	38,258
Property taxes	-	-	-	32,769	-	32,769
Technology and software	-	-	-	77,441	4,033	81,474
Travel	2,788	809	3,597	30,789	17,074	51,460
Utilities	508	600	1,108	112,494	1,269	114,871
	<u>\$ 795,032</u>	<u>\$ 17,181,547</u>	<u>\$ 17,976,579</u>	<u>\$ 3,976,626</u>	<u>\$ 1,105,365</u>	<u>\$ 23,058,570</u>

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 727,179	\$ 322,009
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	488,774	877,632
Allowance for doubtful accounts	(3,622)	(934)
Realized and unrealized (gains) losses on investments	(127,335)	14,897
Changes in assets and liabilities:		
Accounts receivable	(175,047)	142,282
Accounts receivable - State of Texas incentives	446,129	(1,718,225)
Accounts receivable - related party	40,513	(28,575)
Insurance receivable	(653,144)	-
Prepaid expenses	(71,769)	41,900
Accounts payable and accrued liabilities	(229,456)	(385,086)
Deferred revenue for future shows	531,240	53,178
Deferred revenue for stallion/foal fees	1,084,500	172,700
Deferred membership dues	(58,265)	(63,366)
Deferred sponsorship revenue	(130,910)	340,459
Youth scholarships	(1,060,984)	(56,694)
Net cash provided (used) by operating activities	807,803	(287,823)
Cash flows from investing activities:		
Proceeds from sale of investments	2,760,517	5,830,894
Purchases of investments	(1,967,084)	(6,215,024)
Purchases of property and equipment	(116,755)	(70,524)
Net cash provided (used) by investing activities	676,678	(454,654)
Net increase (decrease) in cash	1,484,481	(742,477)
Cash at beginning of year	1,763,983	2,506,460
Cash at end of year	\$ 3,248,464	\$ 1,763,983
Reconciliation of cash and restricted cash reported within the consolidated statement of financial position to the consolidated statement of cash flows:		
Cash	\$ 3,136,600	\$ 1,639,044
Restricted cash - PAC	111,864	124,939
Total cash and restricted cash shown in the consolidated statement of cash flows	\$ 3,248,464	\$ 1,763,983

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

1. Organization

The National Cutting Horse Association (NCHA) is a not-for-profit organization incorporated under the laws of the state of Texas. The purpose of NCHA 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. NCHA 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. NCHA's corporate offices are located in Fort Worth, Texas. NCHA is primarily supported by shows and related activities revenue.

NCHA's Texas Events Political Action Committee (PAC) was formed in 2008 giving NCHA a vehicle to make political contributions to selected candidates and lobbyists. These political contributions are subject to the PAC's adopted policies along with certain legal restrictions of the Federal Election Commission. The NCHA Executive Committee serves as the board of the PAC.

NCHA and the PAC are collectively referred to herein as the Association.

2. Summary of Significant Accounting Policies

The accounting policies of the Association conform to US. generally accepted accounting principles (GAAP). The more significant accounting policies of the Association are described below.

Consolidated Financial Statements

The consolidated financial statements include the accounts and transactions of NCHA and the PAC. All significant intercompany accounts and transaction have been eliminated.

Basis of Accounting

The Association prepares the consolidated financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

Consolidated Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Association and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Association to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a board of directors approved spending policy. As of September 30, 2020 and 2019, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions whose restrictions are met in the same year the contributions are received are reported as net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, investments and accounts receivable. The Association places cash, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. The Association has not experienced losses on such assets. At September 30, 2020 the Association's uninsured bank balances totaled \$3,009,965.

Accounts receivable are unsecured and are continually evaluated by the Association for collectability. Allowances for potential losses are maintained, if considered necessary. Marketable securities are subject to various risks, such as interest rate, credit and overall market volatility risks.

A substantial portion of the Association's revenue is dependent on membership dues and support from venue management organizations in the United States. As such, economic cycles, government legislation and trends in the venue management community may have an impact on revenue and support of the Association.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Investments

Investments in marketable equity securities are recorded at their fair values in the accompanying consolidated statements of financial position. Changes in the fair values are reported in the consolidated statements of activities. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of investments are included in the consolidated statements of activities.

The Association's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Association's financial position and the level of risk inherent in most investments, it is reasonable possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

Accounts Receivable

Accounts receivable is comprised primarily of 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.

Insurance Receivable

The Association canceled one of its major events in March 2020 and filed a claim under its business interruption policy. As of September 30, 2020, \$653,144 was collectible from the insurance company.

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.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

The Association follows the provisions of GAAP for the capitalizations 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 expenses 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
Automobile 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 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 net assets with donor restriction to net assets without donor restriction at such time.

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 consolidated statements of financial position. Proceeds from the deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Revenue Recognition

Membership dues are recognized as revenue during the applicable membership period. Show fees, entry fees, event ticket sales and exhibit fees are recognized as revenue in the period the event is held. Membership dues and registration revenue received before year-end and relating to the next fiscal year are classified as deferred revenue in the consolidated statements of financial position. Sponsorship revenue is recognized as the contract terms are satisfied.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

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. The Association transferred the youth scholarship funds to the NCHA Charities Foundation (Foundation), a related party, as of October 1, 2019. The balance at the date of transfer was \$1,060,984. See Note 13 for other related party activity.

Income Taxes

The majority of activities of NCHA are exempt from federal income taxes under section 501(c)(6) of the Internal Revenue Code (IRC). Activities of the PAC are exempt from federal income taxes under section 527 of the IRC. However, some activities of the Association are subject to federal income taxes under unrelated business income rules. Neither NCHA or the PAC had material amounts of unrelated business income for the years ended September 30, 2020 and 2019.

GAAP requires the evaluation of tax positions taken in the course of preparing the Association's tax returns and recognition of a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association, and has concluded that as of September 30, 2020 and 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the consolidated financial statements. Accordingly, certain costs have been allocated between member services, events, general and administrative and promotion and development based on management's judgment considering time spent or direct relation to the program or support service benefited.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$5,687 and \$34,688 for the years ended September 30, 2020 and 2019, respectively.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Estimates and Assumptions

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

Reclassifications

Certain reclassifications were made to the September 30, 2019 consolidated financial statements to conform to the September 30, 2020 presentation.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Association considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Association's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the consolidated statements of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the consolidated statements of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2021.

In 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization will be required to present contributed nonfinancial assets as a separate line items in the statement of activities, apart from contributions of cash or other financial assets, and additional quantitative and qualitative disclosures will be required. The standard takes effect for annual reporting periods beginning after June 15, 2021.

The Association is currently assessing the impact that adopting this new guidance will have on the consolidated financial statements.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Accounting Pronouncements Adopted

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The Association has adopted the ASU as of and for the year ended September 30, 2020.

In 2019, the FASB issued ASU 2019-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of consolidated financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The Association has adopted the ASU as of and for the year ended September 30, 2020.

3. Restricted Cash - PAC

The PAC maintains a separate bank account for political contributions and the balance is reported as restricted cash in the attached consolidated statement of financial position. PAC restricted cash as of September 30, 2020 and 2019 totaled \$111,864 and \$124,939, respectively. The PAC activity is reported as net assets with donor restrictions.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

4. Fair Value Measurements

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are quoted prices available in active markets; |
| Level 2 | Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable; |
| Level 3 | Inputs to the valuation methodology are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Money market fund is valued using \$1 for the net asset value and is classified within Level 1 of the valuation hierarchy.

Mutual funds are valued at the closing price reported on the active markets on which the individual securities are traded and are classified within Level 1 of the valuation hierarchy.

Corporate and foreign bonds are valued by a third-party pricing source using pricing models maximizing the use of observable inputs for same or similar securities. This includes basing value on yields currently available on same or comparable securities of issued with similar credit ratings.

National Cutting Horse Association and Affiliate
Notes to Consolidated Financial Statements

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2020:

	Level 1	Level 2	Total
Money market fund	\$ 434,227	\$ -	\$ 434,227
Mutual Funds:	-		
Fixed income	4,462,760	-	4,462,760
Growth	854,613	-	854,613
Equity	623,880	-	623,880
Mid-cap	521,306	-	521,306
International	450,627	-	450,627
Small cap	87,123	-	87,123
Emerging markets	123,803	-	123,803
Real estate	173,780	-	173,780
Corporate bonds	-	392,372	392,372
Foreign bonds	-	201,019	201,019
Total investments	<u>\$ 7,732,119</u>	<u>\$ 593,391</u>	<u>\$ 8,325,510</u>

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2019:

	Level 1	Level 2	Total
Money market fund	\$ 407,284	\$ -	\$ 407,284
Mutual Funds:			
Fixed income	4,508,973	-	4,508,973
Growth	934,972	-	934,972
Equity	633,775	-	633,775
Mid-cap	631,892	-	631,892
International	447,609	-	447,609
Small cap	130,183	-	130,183
Emerging markets	306,119	-	306,119
Real estate	275,383	-	275,383
Corporate bonds	-	614,654	614,654
Foreign bonds	-	100,764	100,764
Total investments	<u>\$ 8,276,190</u>	<u>715,418</u>	<u>\$ 8,991,608</u>

National Cutting Horse Association and Affiliate
Notes to Consolidated Financial Statements

Net investment income consists of the following for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 316,721	\$ 422,939
Realized investment gains (losses)	25,456	(28,711)
Unrealized gains on investments	101,949	13,814
Less: investment fees	<u>(32,270)</u>	<u>(41,818)</u>
	<u>\$ 411,856</u>	<u>\$ 366,224</u>

As of September 30, 2020 and 2019, respectively, investments in Frost Total Return Bond Fund totaled 14% and 16% of total investments.

5. Property and Equipment

Property and equipment consists of the following at September 30:

	<u>2020</u>	<u>2019</u>
Land	\$139,788	\$ 139,788
Buildings and improvements	2,345,485	2,318,765
Automobiles and trailers	48,488	48,488
Furniture and equipment	1,053,964	965,412
Software	2,396,460	2,396,460
Construction in progress	<u>56,535</u>	<u>55,052</u>
Total property and equipment	\$6,040,720	5,923,965
Accumulated depreciation	<u>(4,513,076)</u>	<u>(4,024,302)</u>
Net property and equipment	<u>\$1,527,644</u>	<u>\$ 1,899,663</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, 2020 and 2019, the Association incurred amortization expense related to HUB of approximately \$401,000 and \$799,000, respectively.

For the years ended September 30, 2020 and 2019, the Association incurred depreciation expense of approximately \$88,000 and \$79,000, respectively.

6. Board Designated Net Assets

Net assets without donor restrictions totaling \$390,132 and \$371,182 as of September 30, 2020 and 2019, respectively have been designated by the board of directors for the youth fund.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

7. Net Assets With Donor Restriction

Net assets with donor restrictions as of September 30, 2020 and 2019 are available for PAC-related expenditures.

8. Major Events Reimbursement Program

The Major Events Reimbursement Program (MERP) is designed to provide reimbursement for specific expenses incurred in the production of the Triple Crown events. Based on approved applications, the State of Texas provides incentives to the City of Fort Worth for certain qualifying Association events held in the Fort Worth area. The City of Fort Worth, in turn, provides incentives to the Association for the purpose of enhancing Association shows that qualify for the state incentives.

During the years ended September 30, 2020 and 2019, the Association received \$1,787,484 and \$2,233,613, respectively. This revenue is included in shows and related activities on the accompanying consolidated statements of activities. As of September 30, 2020 and 2019, the Association had receivables related to state incentive reimbursements totaling \$1,787,484 and \$2,233,613, respectively.

9. Defined Contribution Plan

The Association sponsors a defined contribution salary deferral plan (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, 2020 and 2019, the Association made matching contributions of approximately \$86,000 and \$49,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the years ended September 30, 2020 and 2019.

National Cutting Horse Association and Affiliate Notes to Consolidated Financial Statements

10. Stallion/Foal Deferred Revenue

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 31st of Breeding Year		3,600
Prior to December 31st of the Foals Weanling Year		4,600
Prior to December 31st of the Foals Yearling Year		6,000
Prior to December 31st of the Foals 2 Year Old Year		7,500
Prior to December 31st of the Foals 3 Year Old Year		10,000

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 the 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. During 2019, the Executive Committee of the board of directors approved the remaining balance to be transferred to the general fund, which reduced deferred revenue by \$750,000 in accordance the Executive Committee minutes dated January 22-23, 2019.

National Cutting Horse Association and Affiliate
Notes to Consolidated Financial Statements

The following table shows the detail of the stallion/foal deferred revenue at September 30:

	2020	2019
Stallion fees collected for the 2020 Super Stakes	\$ 108,500	\$ 104,400
Stallion fees collected for the 2021 Super Stakes	131,397	126,397
Stallion fees collected for the 2022 Super Stakes	109,100	110,100
Stallion fees collected for the 2023 Super Stakes	337,000	312,600
Stallion fees collected for the 2024 Super Stakes	278,700	255,300
Stallion fees collected for the 2025 Super Stakes	257,400	6,800
Stallion fees collected for the 2026 Super Stakes	10,400	-
Total stallion fees collected	<u>1,232,497</u>	<u>915,597</u>
Foal fees collected for the 2020 Super Stakes	712,000	598,900
Foal fees collected for the 2021 Super Stakes	624,200	540,000
Foal fees collected for the 2022 Super Stakes	522,100	450,800
Foal fees collected for the 2023 Super Stakes	489,400	17,600
Foal fees collected for the 2024 Super Stakes	27,200	-
Total foal fees collected	<u>2,374,900</u>	<u>1,607,300</u>
Deferred revenue for stallion/foal fees	<u>\$ 3,607,397</u>	<u>\$ 2,522,897</u>

11. Other Deferred Revenue

Other deferred revenue consists of revenue for future shows, membership dues and sponsorship revenue.

The following table provides information about changes in other deferred revenue as of September 30, 2020:

	Future Shows	Membership Dues	Sponsorship Revenue	Total
Deferred revenue, beginning of year	\$ 2,865,641	\$ 373,744	\$ 370,500	\$ 3,609,885
Revenue recognized that was included in deferred revenue at the beginning of the year	(2,865,641)	(372,349)	(370,500)	(3,608,490)
Increase in deferred revenue due to cash received during the year for subsequent year services	<u>3,396,881</u>	<u>314,084</u>	<u>239,590</u>	<u>3,950,555</u>
Deferred revenue, end of year	<u>\$ 3,396,881</u>	<u>\$ 315,479</u>	<u>\$ 239,590</u>	<u>\$ 3,951,950</u>

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

The following table provides information about changes in other deferred revenue as of September 30, 2019:

	Future Shows	Membership Dues	Sponsorship Revenue	Total
Deferred revenue, beginning of year	\$ 2,812,463	\$ 437,110	\$ 30,041	\$ 3,279,614
Revenue recognized that was included in deferred revenue at the beginning of the year	(2,812,463)	(437,110)	(30,041)	(3,279,614)
Increase in deferred revenue due to cash received during the year for subsequent year services	2,865,641	373,744	370,500	3,609,885
Deferred revenue, end of year	<u>\$ 2,865,641</u>	<u>\$ 373,744</u>	<u>\$ 370,500</u>	<u>\$ 3,609,885</u>

12. 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 2022, bears interest at prime rate as published in the Wall Street Journal (3.25% at September 30, 2020), and is secured by certain investment accounts also held at the financial institution. No amounts were due under the note at September 30, 2020 and 2019.

13. National Affiliates

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended September 30, 2020 and 2019, respectively, the Association received entry fees of approximately \$1,053,000 and \$1,250,000 from these affiliates. Expenses related to these affiliate contests for the years ended September 30, 2020 and 2019 totaled approximately \$580,000 and \$338,000, respectively.

The Association pays insurance costs on behalf of the affiliates, which totaled approximately \$26,000 for the years ended September 30, 2020 and 2019.

14. Related-Party Transactions

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, 2020 and 2019, respectively, the Association had a receivable of approximately \$38,000 and \$78,000, respectively, due from the Foundation relating to reimbursement of costs, which is included in accounts receivable – related party in the accompanying consolidated statements of financial position.

National Cutting Horse Association and Affiliate
Notes to Consolidated Financial Statements

15. 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 2024. Rental expense under these leases approximated \$53,000 and \$68,000 for the years ended September 30, 2020 and 2019, respectively. Future minimum lease payments consist of the following amounts for the years ended September 30:

2021		\$	45,264
2022			36,348
2023			23,904
2024			19,920
			19,920
		\$	125,436

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 totaled approximately \$283,000 and \$459,000 during the years ended September 30, 2020 and 2019, respectively.

Future minimum payments consist of the following amounts for the years ended September 30:

2021		\$	366,190
2022			386,190
2023			396,190
2024			417,600
2025			437,600
Thereafter			1,593,550
			1,593,550
		\$	3,597,320

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Horse Auction Royalties

During 2011, the Association entered into an agreement with Western Bloodstock, Ltd (WB), which was extended through January 1, 2026. WB is 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, 2020 and 2019, the Association received approximately \$719,000 and \$649,000, respectively, from WB in connection with the horse sales each year. These horse auction royalties are recorded in show and related activities revenue in the accompanying consolidated statements of activities. The royalties are received at the conclusion of the calendar year.

16. Liquidity and Availability of Resources

The Association's financial assets available within one year of the consolidated statement of financial position date of September 30, 2020 and 2019 for general expenditures are as follows:

	2020	2019
Cash and cash equivalents	\$ 3,136,600	\$ 1,639,044
Restricted cash	111,864	124,939
Investments	8,325,510	8,991,608
Accounts receivable	336,959	158,290
Accounts receivable - State of Texas incentives	1,787,484	2,233,613
Accounts receivable, net - related party	37,776	78,289
Other receivable	653,144	-
	14,389,337	13,225,783
Less amounts unavailable for general expenditures within one year, due to:		
Entry fees/sponsorships for future shows	3,396,881	3,236,141
Stallion/Foal program	3,607,397	2,522,897
Youth scholarships	-	1,060,984
Board-designated youth fund	390,132	371,182
Donor restricted net assets for PAC expenditures	157,491	271,825
	7,551,901	7,463,029
Financial assets not available for general expenditures		
Total financial assets available to meet cash needs for general expenditures within one year	\$ 6,837,436	\$ 5,762,754

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

The Association manages its liquidity and reserves to maintain adequate liquid assets to fund near-term operating needs and ensure financial assets are available as its general expenditures, liabilities and other obligations come due. During the years ended September 30, 2020 and 2019, the level of liquidity was managed within the Association's expectations.

17. Uncertainties

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity. Several events hosted by the Association were postponed or cancelled due to the pandemic. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Association, if any, cannot be determined at this time.

18. Subsequent Events

The Association evaluated subsequent events through the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required.