

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

**Years Ended December 31, 2011 and 2010
with Report of Independent Auditors**

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
National Cutting Horse Association

We have audited the accompanying statements of financial position of the National Cutting Horse Association, a not-for-profit organization, as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. The Association is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Cutting Horse Association as of December 31, 2011 and 2010 and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

June 13, 2012

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2011	2010
Assets		
Cash and cash equivalents (Note C)	\$ 2,128,810	\$ 270,451
Accounts receivable, net of allowance for doubtful accounts of \$18,239 and \$15,052, respectively	843,391	807,667
Accounts receivable - State of Texas incentives	1,417,020	657,300
Accrued interest receivable	47,266	72,778
Investments (Note D)	4,389,377	6,210,810
Inventories	3,716	7,378
Prepaid expenses and other assets	293,597	171,214
Property and equipment, net (Note E)	2,089,069	2,202,778
Collections (Note F)	-	-
Total assets	\$ 11,212,246	\$ 10,400,376
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 979,845	\$ 839,600
Other accrued liabilities	139,688	124,759
Deferred revenue for future shows	1,153,209	1,072,047
Deferred membership dues (Note G)	707,750	621,926
Deferred revenue, other	109,695	91,292
Youth scholarship awards (Note H)	570,902	524,525
Liability for pension obligation (Note L)	763,161	796,557
Total liabilities	4,424,250	4,070,706
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	5,020,956	4,790,506
Board designated for youth funds (Note H)	360,670	380,330
Total unrestricted	5,381,626	5,170,836
Temporarily restricted - State of Texas incentives (Note I)	1,406,370	1,158,834
Total net assets	6,787,996	6,329,670
Total liabilities and net assets	\$ 11,212,246	\$ 10,400,376

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31,	
	2011	2010
Unrestricted Net Assets		
Operating revenues and support:		
Show revenues and support:		
Entry fees	\$ 6,245,859	\$ 6,597,854
Show fees	3,590,918	3,388,441
Stall rentals and practice pen	1,404,814	1,543,757
Purse sponsors	379,653	600,000
Stallion subscription fees	525,041	498,342
Booth exhibit rental	432,982	460,251
Tickets	442,966	428,378
Sponsorships	531,413	412,280
Affiliate income	253,244	264,563
Event facility allowances	370,985	256,932
Other show income (Note K)	13,450	27,050
Total show revenues and support	14,191,325	14,477,848
Department revenues and support:		
Advertising	1,719,621	1,700,950
Sponsorships	1,468,678	1,530,514
Affiliate income	940,943	812,741
Membership dues and fees	791,530	968,477
Horse sales	561,788	650,000
Fund-raising events (Note N)	293,158	114,944
Other department income (Note K)	426,015	375,847
Total department revenues and support	6,201,733	6,153,473
Net assets released from restrictions-		
State of Texas incentives (Note I)	1,821,942	1,186,913
Total unrestricted operating revenues and support	22,215,000	21,818,234
Operating expenses:		
Show expenses:		
Premiums, including sire awards, and NCHA Day	7,831,223	8,379,710
Premiums from State of Texas incentives	1,463,417	1,186,913
Cattle	1,878,920	1,909,681
Judges, contract labor and show staff, soundmen, security, and paramedics	815,435	871,740
Awards	798,249	785,918
Equipment and facilities rent	716,686	782,569
Coliseum preparation	351,326	341,386
Stall rentals and practice pen expenses	219,893	271,331
Advertising	109,152	100,625
Other show expenses (Note K)	353,485	337,125
Total show expenses	14,537,786	14,966,998

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended December 31,	
	2011	2010
	<u> </u>	<u> </u>
Operating expenses - continued:		
Department expenses:		
Salaries and benefits	\$ 1,979,198	\$ 1,982,465
Retirement expenses (Note L)	140,493	148,185
Affiliate Challenge and NCHA Weekend	735	129,000
Awards	371,523	481,387
Printing	441,265	479,365
Equipment and facilities rent	109,072	121,298
Monitor fees and expenses	155,169	145,834
Sponsor advertisements (non-cash)	663,924	678,905
Project, promotional, and public relations	957,638	784,595
Advertising	202,738	188,170
Postage	212,912	238,638
Insurance	373,367	358,020
Payroll and ad valorem taxes	194,386	185,060
Professional fees (Note J)	605,313	695,807
Depreciation	159,305	157,509
Other department expenses (Note K)	812,922	828,346
Total department expenses	<u>7,379,960</u>	<u>7,602,584</u>
Total unrestricted operating expenses	<u>21,917,746</u>	<u>22,569,582</u>
Operating revenues net of operating expenses	297,254	(751,348)
Other unrestricted income:		
Interest and dividend income	184,066	271,460
Realized investment gains	122,148	49,634
Gains on disposals of property and equipment	300	-
Total other unrestricted income	<u>306,514</u>	<u>321,094</u>
Change in unrestricted net assets from operations	603,768	(430,254)
Other unrestricted non-operating activities:		
Unrealized losses in market value of investments	(126,345)	(26,450)
Pension Plan changes other than net periodic pension cost	(266,633)	(49,129)
Total other unrestricted non-operating activities	<u>(392,978)</u>	<u>(75,579)</u>
Change in unrestricted net assets	210,790	(505,833)
Temporarily Restricted Net Assets		
Restricted contributions-State of Texas incentives (Note I)	2,069,478	1,684,008
Net assets released from restrictions-State of Texas incentives	(1,821,942)	(1,186,913)
Net increase in temporarily restricted net assets	<u>247,536</u>	<u>497,095</u>
Net increase (decrease) in net assets	458,326	(8,738)
Net assets at beginning of year	<u>6,329,670</u>	<u>6,338,408</u>
Net assets at end of year	<u>\$ 6,787,996</u>	<u>\$ 6,329,670</u>

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2011	2010
	<u> </u>	<u> </u>
Operating Activities		
Net increase (decrease) in net assets	\$ 458,326	\$ (8,738)
Adjustments to reconcile net increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	159,305	157,509
Provision for bad debts	12,204	12,912
Gains on disposals of property and equipment	(300)	-
Net realized and unrealized (gains) losses on investments	4,197	(23,184)
Restricted contributions	(2,069,478)	(1,684,008)
Effect of defined benefit pension plan changes	266,633	49,129
Changes in operating assets and liabilities:		
Accounts receivable	(47,928)	256
Accounts receivable - State of Texas incentives	(759,720)	(295,803)
Accrued interest receivable	25,512	(1,671)
Inventories	3,662	1,607
Prepaid expenses and other assets	(122,383)	58,805
Accounts payable and other accrued liabilities	155,174	(290,888)
Deferred revenue for future shows	81,162	(231,460)
Deferred membership dues	85,824	(104,644)
Deferred revenue, other	18,403	(18,222)
Youth scholarship awards	46,377	29,143
Liability for pension obligation	(300,029)	(122,882)
Net cash used in operating activities	<u>(1,983,059)</u>	<u>(2,472,139)</u>
Investing Activities		
Proceeds from sales of investments	1,817,236	2,600,416
Purchases of investments	-	(2,793,606)
Proceeds from sales of property and equipment	300	-
Purchases of property and equipment	(45,596)	(65,822)
Net cash provided by (used in) investing activities	<u>1,771,940</u>	<u>(259,012)</u>
Financing Activities		
Bank overdraft	-	(506,426)
Restricted contributions	2,069,478	1,684,008
Net cash provided by financing activities	<u>2,069,478</u>	<u>1,177,582</u>
Net increase (decrease) in cash and cash equivalents	1,858,359	(1,553,569)
Cash and cash equivalents at beginning of year	<u>270,451</u>	<u>1,824,020</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,128,810</u></u>	<u><u>\$ 270,451</u></u>

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

A. Nature of Activities

The National Cutting Horse Association (the "Association") is a non-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 or spokesmen for such contests, exhibitions and expositions; and, encourages the development and breeding of finer cutting horses. The business operations of the Association are managed based on the items and activities affecting the amounts of the change in unrestricted net assets from operations within the accompanying statements of activities and changes in net assets, along with actual investment earnings. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Due to the high volume of business activity conducted in December of each year, the Association closes its books several months after the end of the year which minimizes the number of estimates required to prepare the accompanying annual financial statements.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Financial Statement Presentation

The Association presents its financial statements in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 958-205, *Not-For-Profit Entities: Presentation of Financial Statements*. Under FASB ASC Topic No. 958-205, the Association is required 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.

Contributions

The Association accounts for contributions in accordance with FASB ASC Topic No. 958-605, *Not-For-Profit Entities: Revenue Recognition*, which requires contributions received to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under FASB ASC Topic No. 958-605, 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.

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 FASB ASC Topic No. 958-320, *Not-for-Profit Entities: Investments—Debt and Equity Securities*. This statement requires investments with readily determinable fair values to be stated at fair value with realized and unrealized gains and losses included in the statements of activities and changes in net assets of the respective period.

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

The Association follows the provisions of FASB ASC Topic No. 820, *Fair Value Measurements*, which establishes a framework for measuring the fair value for certain assets and liabilities and it established a framework that 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 FASB ASC Topic No. 820 are described below:

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Investments – continued

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.

Accounts Receivable

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

Inventories

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

Property and Equipment

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

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

B. Summary of Significant Accounting Policies – continued

Property and Equipment – continued

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

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

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.

Collections

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

Deferred Revenues and Deferred Membership Dues

Deferred revenue for membership dues and sponsorships represents money received in advance for future periods of activity. Deferred revenue for future shows represents entry fees received in the current period relating to future shows to be sponsored by the Association. The Association recognizes the deferred revenue upon completion of the respective show or in accordance with the terms of the sponsorship agreement. It is the Association's policy to amortize lifetime membership dues over twelve years and three year memberships over three years.

Youth Scholarship Awards

The Association awards scholarships to youth participants at various cutting horse events throughout the year, which are required to be used for qualified educational expenses. The scholarships are charged to expense in the year in which the amount is awarded. The youth scholarship awards liability in the accompanying statements of financial position represents scholarships that have been awarded, but not yet disbursed to the educational institution.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Advertising

Advertising costs are expensed as incurred and included as a separate line item in the accompanying statements of activities and changes in net assets.

Income Taxes

The Association is a non-profit organization as defined in Section 501(c)(5) of the Internal Revenue Code and, accordingly, does not provide for federal income taxes.

Advertising revenue generated from *The Cutting Horse Chatter* is considered unrelated business income and is reported as such for tax-reporting purposes. During 2011 and 2010, net taxable unrelated business income was not significant and therefore, no provision for income taxes was recorded in the accompanying financial statements. The Association has net operating loss carryforwards of approximately \$92,000 that were generated in years prior to 2011 as a result of unrelated business income and expense activity. Such loss carryforwards will expire in years 2012 through 2029, if not utilized.

FASB ASC Topic No. 740, *Income Taxes*, prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Management of the Association believes that it has not taken a tax position that, if challenged, would have a material effect on the financial statements. The Association files Forms 990 and 990-T in the federal jurisdiction within the United States. At December 31, 2011, the Association's tax returns related to the years ended December 31, 2008 through December 31, 2010 remain open to possible examination by tax authorities. No tax returns are currently under examination by any tax authorities. The Association has not incurred any penalties or interest under FASB ASC Topic No. 740.

Donated Services

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

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

C. Cash and Cash Equivalents

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

	<u>2011</u>	<u>2010</u>
Cash	\$ 653,744	\$ 249,026
Cash equivalents	1,475,066	21,425
Total cash and cash equivalents	<u>\$ 2,128,810</u>	<u>\$ 270,451</u>

At December 31, 2011 and 2010, cash equivalents were held by the Association's third party investment advisor.

D. Investments

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

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 3,820	\$ 3,820	\$ 3,811	\$ 3,811
Corporate bonds	3,177,463	3,212,739	4,346,795	4,477,044
Foreign bonds	514,160	517,270	1,036,015	1,093,610
Municipal bonds – tax exempt	317,295	334,374	321,206	319,389
Municipal bonds - taxable	314,484	321,174	314,483	316,956
Total investments	<u>\$ 4,327,222</u>	<u>\$ 4,389,377</u>	<u>\$ 6,022,310</u>	<u>\$ 6,210,810</u>

The market value of the Association's investments was based on Level 2 inputs, as defined by FASB ASC Topic No. 820, which represent quoted prices for identical or similar assets or liabilities in inactive markets.

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

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 184,066	\$ 271,460
Net realized gains	122,148	49,634
Net unrealized losses	(126,345)	(26,450)
Investment management fees	<u>(29,576)</u>	<u>(35,549)</u>
Net investment income, including realized and unrealized gains and losses	<u>\$ 150,293</u>	<u>\$ 259,095</u>

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

E. Property and Equipment

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

	<u>2011</u>	<u>2010</u>
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,292,749	2,288,608
Automobiles and trailers	71,011	56,096
Office furniture and equipment	974,147	1,045,189
Total property and equipment	<u>3,477,695</u>	<u>3,529,681</u>
Less accumulated depreciation	<u>1,388,626</u>	<u>1,326,903</u>
Property and equipment, net	<u><u>\$ 2,089,069</u></u>	<u><u>\$ 2,202,778</u></u>

F. Collections

The Association's collections are held for public exhibition, education, or research and the Association has a collections management policy which includes guidance on the preservation, care, and maintenance of the collections and procedures relating to the accession/deaccession of collection items.

No value is assigned to the collections in the accompanying financial statements. Proceeds from deaccessions or insurance recoveries for lost or destroyed collection items are recognized as increases in the appropriate net asset class and are designated for future collection acquisitions.

G. Deferred Membership Dues

The Association amortizes lifetime member dues over a twelve-year period and three-year member dues over three years. Non-pro dues, first-class postage dues, trainer fee dues, and supplement dues represent money received in advance for future periods of activity. Deferred membership dues, at December 31, were composed of the following:

	<u>2011</u>	<u>2010</u>
Membership dues	\$ 631,619	\$ 560,529
Non-pro dues	61,464	51,890
First-class postage dues	8,201	6,055
Trainer fee dues	5,130	2,540
Supplement dues	1,336	912
Total deferred membership dues	<u><u>\$ 707,750</u></u>	<u><u>\$ 621,926</u></u>

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

H. Unrestricted Net Assets – Board Designated for Youth Funds

As of December 31, 2011 and 2010, approximately \$361,000 and \$380,000 of net assets were designated by the Board of Directors of the Association for youth funds. Youth funds include excess revenues earned on youth activities that have been designated for future youth events. The liability for youth scholarship awards represents scholarships awarded that will be paid when the awardees enroll in college. If an awardee reaches age 26 and has not utilized the full amounts of the scholarship, the unused amounts are returned to the amount designated for youth funds.

I. Temporarily Restricted Net Assets – State of Texas Incentives

Based on approved applications, the State of Texas provides incentives to the City of Fort Worth for Association events held in the Fort Worth area. The City of Fort Worth, in turn, provides incentives to the Association that are restricted for the purpose of bettering Association shows that qualify for the state incentives. During 2007, the Executive Board of Directors (the “Executive Committee”) started setting aside a portion of these temporarily restricted funds received for future use. The policy is to create a reserve equal to one year’s use of incentives. The temporarily restricted amounts were held in investments at December 31, 2011 and 2010. The following represents the incentives awarded by the State of Texas and how the incentives were used as approved by the Executive Committee for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Beginning Balance at January 1,	\$ 1,158,834	\$ 661,739
Super Stakes:		
State of Texas incentive contribution	208,716	376,617
Net assets released from restrictions:		
Purse	(480,917)	(335,113)
Cattle allowance	(55,678)	-
Derby (Summer Spectacular):		
State of Texas incentive contribution	443,742	650,091
Net assets released from restrictions:		
Purse	(482,500)	(351,800)
Cattle allowance	(51,240)	-
Futurity:		
State of Texas incentive contribution	1,417,020	657,300
Net assets released from restrictions:		
Purse	(500,000)	(500,000)
Cattle allowance	(55,145)	-
50 th Futurity promotion	(196,462)	-
Ending balance at December 31,	<u>\$ 1,406,370</u>	<u>\$ 1,158,834</u>

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

J. Professional Fees

For the years ended December 31, professional fees were composed of the following:

	<u>2011</u>	<u>2010</u>
Actuarial services	\$ 28,141	\$ 36,704
Attorneys	379,255	412,319
Auditing, tax, and ballot counting services	53,239	45,344
Consulting - economic impact	23,250	24,878
Consulting - information technology	720	6,339
Consulting – legislative	56,991	97,000
Consulting – marketing	61,401	68,693
Consulting – other	2,316	4,530
Total professional fees	<u>\$ 605,313</u>	<u>\$ 695,807</u>

K. Other Income and Expenses

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

	<u>2011</u>	<u>2010</u>
Other show income:		
Show transfer fees	\$ 9,700	\$ 16,300
Scoreboard advertising	3,750	10,750
Total other show income	<u>\$ 13,450</u>	<u>\$ 27,050</u>
Other department income:		
Royalties and affinity programs	\$ 222,603	\$ 233,169
Judges - seminars and fees	14,493	52,930
Electronic advertising and NCHA blog	48,845	32,789
Donations and other miscellaneous income	81,861	4,689
Fines and protests	26,942	15,825
Convention registration	18,995	24,460
Horse records	12,276	11,985
Total other department income	<u>\$ 426,015</u>	<u>\$ 375,847</u>
Other show expenses:		
Exhibit hall and show office supplies	\$ 110,549	\$ 94,686
Hospitality	46,164	45,833
Show postage and printing	10,537	13,117
Show promotions	85,157	51,282
Show sponsor cost	11,460	66,634
Tickets and parties expenses	60,234	51,030
Veterinarian expenses and drug testing	29,384	14,543
Total other show expenses	<u>\$ 353,485</u>	<u>\$ 337,125</u>

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

K. Other Income and Expenses – continued

	2011	2010
Other department expenses:		
Bad debts	\$ 12,204	\$ 12,912
Bank fees and charges	16,680	13,928
Committee expenses	76,955	87,583
Contract labor	94,454	61,254
Convention expenses	53,136	91,196
Credit card fees	133,013	108,260
Dues, fees, and subscriptions	22,120	23,567
Feature stories	17,455	24,331
Investment management fees	29,576	35,549
Miscellaneous expenses	38,430	61,494
Office supplies	47,709	54,808
Repairs and maintenance	8,636	10,708
Scholarships	78,038	37,532
Travel	69,635	85,789
Utilities	90,751	94,505
Vehicle allowance	24,130	24,930
	\$ 812,922	\$ 828,346

L. Benefit Plans

The Association sponsors a defined benefit pension plan (the “Pension Plan”) covering all of its full-time employees hired prior to October 31, 2003. Pension benefits are based upon years of service and average compensation. The Association’s funding policy is to make annual contributions sufficient to meet at least the minimum funding standards of the Employee Retirement Income Security Act of 1974. In 2003, the Association froze the Pension Plan. As a result, effective January 31, 2004, additional service and pay increases (other than employees with at least 10 years of service as of that date) are not recognized for benefit determination for the Pension Plan. No new entrants are allowed to join the Plan and generally, no new benefits are being earned.

During 2010, the Executive Committee approved a plan to truncate the Pension Plan over a five-year period beginning in 2010. The Association made contributions to the Pension Plan of \$395,000 during 2011, which included additional contributions pursuant to this plan of approximately \$141,000. During 2012, the Association expects to contribute approximately \$317,500 to the Pension Plan.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

L. Benefit Plans – continued

The Pension Plan’s funded status and other pertinent information related to the Pension Plan is set forth in the following table:

	2011	2010
Projected benefit obligation at December 31	\$ 2,436,812	\$ 2,119,469
Fair value of plan assets at December 31	1,673,651	1,322,912
Funded status	\$ (763,161)	\$ (796,557)
Prepaid benefit costs recognized in the statements of financial position	\$ 612,220	\$ 312,191
Accumulated benefit obligation (all vested)	\$ 2,397,539	\$ 2,078,118
Net periodic pension costs	\$ 94,971	\$ 113,118
Employer contributions	395,000	236,000
Benefits paid	37,458	39,533
Weighted-average assumptions as of December 31:		
Discount rate	5.00%	5.75%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

The overall expected long-term rate of return on assets assumption is based on historical returns for the Pension Plan and expected future long-term rate of returns based on the Pension Plan’s investment policy.

	2011
Amounts not recognized as components of net periodic pension cost in the statements of financial position:	
Unrecognized actuarial loss	\$ 1,375,381

It is anticipated that \$143,253 of the unrecognized actuarial loss will be recognized as a component of net periodic pension cost in 2012.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

L. Benefit Plans – continued

Benefits expected to be paid by the Pension Plan for the next five fiscal years and the aggregate for the five fiscal years thereafter are as follows:

2012	\$ 157,000
2013	252,000
2014	96,000
2015	48,000
2016	125,000
2017 to 2021	906,000
Total benefits expected to be paid	\$ 1,584,000

The investment policy of the Pension Plan is to maximize long-term investment returns while assuring an acceptable level of risk. In order to satisfy this investment policy, the target weighted average ranges of percentages for each major category of the Pension Plan assets are 40-60% equity securities, 20-30% debt securities, and 10-20% cash and cash equivalents. Investment decisions are made with the understanding of how each asset class will promote optimal expected return and volatility characteristics of the portfolio given the obligations and time horizon of the Pension Plan's liabilities.

The Pension Plan's assets as of December 31, 2011, were invested 40% in equity securities, 8% in debt securities, 30% in mutual funds and 22% in cash and cash equivalents. As of December 31, 2010, the Pension Plan's assets were invested 43% in equity securities, 15% in debt securities, 31% in mutual funds and 11% in cash and cash equivalents. At December 31, 2011 and 2010, the Pension Plan's investments were valued at fair value based on Level 1 inputs, as defined by FASB ASC Topic No. 820.

The Association also sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. The Association matches 50% of employee contributions up to 3% of the employee's eligible compensation, as defined in the Deferred Plan documents. The Association at its discretion may also contribute an additional amount, as it deems necessary. During the years ended December 31, 2011 and 2010, the Association made matching contributions of approximately \$40,000 and \$22,000, respectively. The Association made no discretionary contributions to the Deferred Plan during 2011 and 2010.

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

	2011	2010
Pension Plan net periodic pension costs	\$ 94,971	\$ 113,118
Deferred Plan matching contributions	40,338	22,206
Pension Benefit Guaranty Corporation payments and fees	5,184	12,861
Total retirement expenses	\$ 140,493	\$ 148,185

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

M. Concentrations of Credit Risk

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

At December 31, 2011, approximately 60% and 15% of the Association's accounts receivable was comprised of outstanding amounts due from the State of Texas and the City of Fort Worth, respectively. Approximately 44% and 18% of the Association's accounts receivable at December 31, 2010, was comprised of outstanding amounts due from the State of Texas and Fort Worth Chamber of Commerce, respectively, which were subsequently collected in 2010. All receivables are unsecured and are not pledged as collateral or limited in use.

N. Fund-Raising Events

The Association holds annual fund-raising events for the youth department and reports the revenue generated, net of any direct operating costs, as revenues in the accompanying statements of activities and changes in net assets which approximated \$293,000 and \$115,000 during 2011 and 2010, respectively. There were no direct costs relating to fund-raising events in 2011 or 2010.

O. Related Party Transactions

NCHA Charities Foundation (the "Foundation") was established to award scholarships and financial aide to eligible members of the Association. The purpose of this entity is separate from that of the Association, but it is also dependent in that only members of the Association may benefit from the Foundation. The Association disburses money specifically donated by its members to the Foundation. During 2011 and 2010, the Association disbursed approximately \$133,000 and \$8,000, respectively to the Foundation. The Association also has a payable of approximately \$30,000 and \$2,000 to the Foundation at both December 31, 2011 and 2010, respectively, which was disbursed in 2012 and 2011, respectively. At December 31, 2010, the Association had a receivable of approximately \$33,000 due from the Foundation relating to reimbursement of costs. In addition, the Association's accounting department performs accounting functions for the Foundation at no cost.

The Association donated advertising in *The Cutting Horse Chatter* to the Foundation valued at approximately \$11,000 for each of the years ended December 31, 2011 and 2010.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended December 31, 2011 and 2010, the Association received entry fees of approximately \$1,148,000 and \$1,036,000, respectively, from these affiliates.

Affiliate challenge awards were paid during 2010 to affiliates meeting the requirements of a competitive program. The amounts paid during the year ended December 31, 2010 totaled approximately \$54,000. There were no amounts paid during the year ended December 31, 2011.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

O. Related Party Transactions – continued

Fees received from affiliates for use of the Association's show production software during 2011 and 2010 was \$47,000 and \$41,000, respectively. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During 2011 and 2010, show software costs of approximately \$71,000 and \$62,000, respectively, were reimbursed to affiliates.

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. The contestants must be members of the Association in good standing and the show must remit 8% and 6% of all entry fees to the Association during 2011 and 2010, respectively. As of December 31, 2011 and 2010, approximately \$3,000 and \$6,000, respectively, was still receivable from the contestants. In the opinion of management, the amount of ultimate liability with respect to these entry fees will not materially affect the financial position or operations of the Association.

The Association leases certain office equipment, with annual rental payments of approximately \$5,000, under a five-year, non-cancelable operating lease which matures in March 2013. Annual rental expense under this lease approximated \$5,000 for each of the years ended December 31, 2011 and 2010. Minimum annual lease payments approximate \$5,000 and \$1,000 for 2012 and 2013, respectively.

The Association leases facilities from the City of Fort Worth under a five-year operating lease initially maturing in May 2011 for the purpose of holding the Super Stakes, Summer Spectacular and World Championship Futurity events each year. On January 1 of each year beginning in 2008, one additional year will be automatically added to the end of the initial five-year term of this lease agreement unless written notice is given by either party prior to January 1. At December 31, 2011, the Association is obligated to continue under this lease until May 2015. The amount paid during 2011 and 2010 for the facilities rental under the lease was approximately \$310,000 and \$335,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for 2012 through 2015.

Prior to 2010, the Association entered into a three-year operating lease for the rental of facilities in Jackson, Mississippi for the Eastern National Championships event to be held annually. The amounts paid during 2011 and 2010 for the facilities rental was \$40,000 each year. The minimum rental, on an annual basis, is approximately \$40,000 for 2012.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

P. Commitments and Contingencies – continued

On January 27, 2010, the Association entered into a bartering arrangement with an event facility in Ogden, Utah, in which the Association will be provided the use of facilities, stalls, services and equipment for the Western National Championship event with an estimated value of \$126,000 per year at no cost. In exchange, the Association will provide the facility with sponsorship benefits at an official corporate partner level which includes advertisement in programs, annuals, posters, public announcements and wall signage. The value of the sponsorship recognition to be provided is to equal the value of the facilities being provided to the Organization at no cost. This agreement was terminated in 2011, resulting in the Association paying \$30,000 to the facility during the year ended December 31, 2011.

On June 27, 2006, the Association entered an agreement with the American Quarter Horse Association (the "AQHA"), a non-profit corporation, to undertake the development of software to capture data and create reports which will contain Association performance records, data and information incorporated with AQHA's pedigree records. Revenues from the sale of the reports and costs of software development will be shared equally by the two organizations. The agreement shall be in effect for a period of five years. The agreement limits the Association's share of costs of development to \$75,000 and such costs were incurred in 2006. The Association's share of revenue from the sale of reports will be retained by the AQHA until the revenues exceed the Association's share of costs incurred. No revenue from the sale of reports has been generated to date through December 31, 2011.

Q. Subsequent Events

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through June 13, 2012, the date the financial statements were available for issuance.