



National Cutting Horse Association and Affiliate

**Consolidated Financial Statements
September 30, 2022 and 2021**

National Cutting Horse Association and Affiliate

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Independent Auditors' Report

To the Board of Directors of
National Cutting Horse Association

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of National Cutting Horse Association and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Cutting Horse Association and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Cutting Horse Association and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Cutting Horse Association and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.



A Limited Liability Partnership

Arlington, Texas
March 24, 2023

National Cutting Horse Association and Affiliate
Consolidated Statements of Financial Position
September 30, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 7,072,957	\$ 5,609,982
Restricted cash - PAC	70,225	113,938
Investments	8,444,829	9,990,135
Accounts receivable	341,835	475,183
Accounts receivable - State of Texas incentives	2,086,794	1,073,990
Accounts receivable - related party	12,766	9,012
Other receivable	130,000	-
Prepaid expenses	545,450	423,438
Total current assets	18,704,856	17,695,678
Property and equipment, net	1,396,038	1,450,518
Total assets	\$ 20,100,894	\$ 19,146,196
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 690,187	\$ 577,112
Deferred revenue for future shows	4,277,475	3,865,883
Deferred revenue for stallion/foal fees	3,140,100	2,959,400
Deferred membership dues	215,695	256,007
Deferred sponsorship revenue	455,521	514,925
Current maturities of note payable	5,913	5,913
Total current liabilities	8,784,891	8,179,240
Note payable, net of current maturities	493	6,406
Total liabilities	8,785,384	8,185,646
Net assets:		
Net asset without donor restrictions:		
Undesignated	10,768,511	10,401,859
Board designated for youth fund	413,319	399,125
Total net assets without donor restrictions	11,181,830	10,800,984
Net assets with donor restrictions	133,680	159,566
Total net assets	11,315,510	10,960,550
Total liabilities and net assets	\$ 20,100,894	\$ 19,146,196

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Activities
Years Ended September 30, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Revenue and support:		
Shows and related activities	\$ 21,226,236	\$ 21,090,786
Affiliate and independent producers activities	1,892,668	1,373,705
Promotion and development	1,229,670	1,257,288
Member services	712,742	734,687
Contributions of nonfinancial assets	186,100	168,676
Other income	277,228	45,118
Investment income (loss), net	<u>(1,533,153)</u>	<u>1,016,043</u>
Total revenue and support	23,991,491	25,686,303
Net assets released from restrictions:		
Satisfaction of donor restriction	<u>273,699</u>	<u>229,749</u>
Total revenue and support, net	24,265,190	25,916,052
Expenses:		
Member services	997,172	732,278
Events	18,679,785	18,381,568
General and administrative	3,155,627	3,040,789
Promotion and development	<u>1,051,760</u>	<u>1,047,530</u>
Total expenses	<u>23,884,344</u>	<u>23,202,165</u>
Increase in net assets without donor restrictions	380,846	2,713,887
Changes in net assets with donor restrictions:		
PAC contributions	247,813	231,824
Net assets released from restrictions	<u>(273,699)</u>	<u>(229,749)</u>
Increase (decrease) in net assets with donor restrictions	<u>(25,886)</u>	<u>2,075</u>
Change in net assets	354,960	2,715,962
Net assets at beginning of year	<u>10,960,550</u>	<u>8,244,588</u>
Net assets at end of year	<u>\$ 11,315,510</u>	<u>\$ 10,960,550</u>

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2022

	Program			General and Administrative	Promotion and Development	Total
	Member Services	Events	Total			
Salaries, taxes and benefits	\$ 451,021	\$ 451,852	\$ 902,873	\$ 1,248,095	\$ 300,679	\$ 2,451,647
Awards	5,965	1,166,998	1,172,963	-	-	1,172,963
Bank fees	-	-	-	311,230	-	311,230
Cattle	-	2,280,100	2,280,100	-	-	2,280,100
Contract labor	62,813	2,915	65,728	160,070	63,000	288,798
Committees	-	-	-	70,346	-	70,346
Convention	202,704	-	202,704	-	-	202,704
Depreciation	-	-	-	122,096	-	122,096
Dues and subscriptions	228	27,050	27,278	15,629	10,679	53,586
Facility	-	1,835,400	1,835,400	-	-	1,835,400
In-kind	-	186,100	186,100	-	-	186,100
Insurance	-	2,415	2,415	161,642	-	164,057
Judges and show staff expenses	130,339	1,361,952	1,492,291	-	-	1,492,291
Marketing	3,139	407,541	410,680	3,000	222,093	635,773
Other	17,829	-	17,829	25,973	-	43,802
PAC lobbying and contributions	-	-	-	273,699	-	273,699
Printing and postage	59,003	2,812	61,815	4,869	153,028	219,712
Producer subsidies	-	231,696	231,696	-	-	231,696
Professional fees	-	105,000	105,000	375,328	127,683	608,011
Premiums	-	10,521,466	10,521,466	-	-	10,521,466
Rent	-	10,121	10,121	64,928	-	75,049
Repairs and maintenance	-	2,498	2,498	50,951	-	53,449
Special projects	52,940	17,808	70,748	-	166,057	236,805
Supplies	2,613	42,643	45,256	15,738	4,983	65,977
Taxes	-	-	-	57,271	-	57,271
Technology and software	-	16,914	16,914	117,969	-	134,883
Travel	8,578	6,504	15,082	20,023	3,558	38,663
Utilities	-	-	-	56,770	-	56,770
	<u>\$ 997,172</u>	<u>\$ 18,679,785</u>	<u>\$ 19,676,957</u>	<u>\$ 3,155,627</u>	<u>\$ 1,051,760</u>	<u>\$ 23,884,344</u>

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2021

	Program			General and Administrative	Promotion and Development	Total
	Member Services	Events	Total			
Salaries, taxes and benefits	\$ 435,274	\$ 433,033	\$ 868,307	\$ 1,218,591	\$ 377,394	\$ 2,464,292
Awards	7,054	1,027,606	1,034,660	298	77,004	1,111,962
Bank fees	-	-	-	335,632	-	335,632
Cattle	-	1,998,983	1,998,983	-	-	1,998,983
Contract labor	5,879	2,052	7,931	99,480	75,472	182,883
Committees	212	-	212	95,224	-	95,436
Convention	21,720	-	21,720	-	-	21,720
Depreciation	-	-	-	135,336	-	135,336
Dues and subscriptions	737	81	818	13,919	9,489	24,226
Facility	-	1,670,823	1,670,823	-	-	1,670,823
In-kind	-	168,676	168,676	-	-	168,676
Insurance	-	926	926	161,095	-	162,021
Judges and show staff expenses	131,218	1,334,107	1,465,325	-	-	1,465,325
Marketing	8,703	276,534	285,237	-	105,383	390,620
Other	2,000	30,250	32,250	4,273	531	37,054
PAC lobbying and contributions	-	-	-	229,749	-	229,749
Printing and postage	54,458	9,087	63,545	14,198	174,217	251,960
Professional fees	-	105,000	105,000	381,974	214,929	701,903
Premiums	-	11,270,041	11,270,041	-	-	11,270,041
Rent	-	7,235	7,235	8,602	-	15,837
Repairs and maintenance	-	-	-	54,217	-	54,217
Special projects	54,174	-	54,174	-	5,734	59,908
Supplies	3,213	27,074	30,287	11,846	5,365	47,498
Taxes	-	-	-	58,447	-	58,447
Technology and software	-	8,301	8,301	153,493	-	161,794
Travel	7,636	6,238	13,874	12,744	2,012	28,630
Utilities	-	5,521	5,521	51,671	-	57,192
	<u>\$ 732,278</u>	<u>\$ 18,381,568</u>	<u>\$ 19,113,846</u>	<u>\$ 3,040,789</u>	<u>\$ 1,047,530</u>	<u>\$ 23,202,165</u>

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Cash Flows
Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 354,960	\$ 2,715,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	122,096	135,336
Realized and unrealized (gains) losses on investments	1,702,013	(878,383)
Changes in assets and liabilities:		
Accounts receivable	133,348	(138,224)
Accounts receivable - State of Texas incentives	(1,012,804)	713,494
Accounts receivable - related party	(3,754)	28,764
Other receivable	(130,000)	-
Insurance receivable	-	653,144
Prepaid expenses	(122,012)	(102,773)
Accounts payable and accrued liabilities	113,075	143,401
Deferred revenue for future shows	411,592	469,002
Deferred revenue for stallion/foal fees	180,700	(647,997)
Deferred membership dues	(40,312)	(59,472)
Deferred sponsorship revenue	(59,404)	275,335
Net cash provided by operating activities	1,649,498	3,307,589
Cash flows from investing activities:		
Proceeds from sales of investments	1,939,613	2,373,038
Purchases of investments	(2,096,320)	(3,159,280)
Purchases of property and equipment	(67,616)	(39,978)
Net cash used by investing activities	(224,323)	(826,220)
Cash flows from financing activities:		
Repayment of note payable	(5,913)	(5,913)
Draws on line of credit	-	2,000,000
Repayment of line of credit	-	(2,000,000)
Net cash used by financing activities	(5,913)	(5,913)
Net increase in cash	1,419,262	2,475,456
Cash at beginning of year	5,723,920	3,248,464
Cash at end of year	\$ 7,143,182	\$ 5,723,920
Reconciliation of cash and restricted cash reported within the consolidated statements of financial position to the consolidated statements of cash flows:		
Cash	\$ 7,072,957	\$ 5,609,982
Restricted cash - PAC	70,225	113,938
Total cash and restricted cash shown in the consolidated statements of cash flows	\$ 7,143,182	\$ 5,723,920

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 accounting principles generally accepted in the United States of America (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 transactions have been eliminated.

Basis of Accounting

The Association prepares the consolidated financial statements on the accrual basis of accounting.

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, 2022 and 2021, 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, 2022 the Association's uninsured bank balances totaled \$7,076,377.

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 are 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.

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 consolidated statements of activities and changes in net assets of the respective period.

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.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

Depreciation and amortization are computed using the straight-ling 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
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 restrictions to net assets without donor restrictions 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 his 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.

Income Taxes

The majority of activities of NCHA are exempt from federal income taxes under section 501(c)(5) 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, 2022 and 2021.

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

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, 2022 and 2021, 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 \$239,724 and \$77,122 for the years ended September 30, 2022 and 2021, respectively.

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, 2021 consolidated financial statements to conform to the September 30, 2022 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 consolidated financial position and changes in net assets.

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Notes to Consolidated Financial Statements

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.

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

Accounting Pronouncements Adopted

The Association adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07). ASU 2020-07 increases transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in ASU 2020-07 address stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributed nonfinancial assets (gifts in-kind) as a separate line item in the statement of activities. The Association has adopted this ASU on the modified retrospective basis as of and for the year ended September 30, 2022.

Analysis of various provisions of this standard resulted in no significant changes in the way the Association recognizes gifts in-kind, and therefore, no changes were required to net assets as of October 1, 2021. The presentation and disclosures of gifts in-kind have been enhanced in accordance with the standard.

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 statements of financial position. PAC restricted cash as of September 30, 2022 and 2021 totaled \$70,225 and \$113,938, respectively. The PAC activity is reported as net assets with donor restrictions.

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;
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National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

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.

Mutual funds are valued at the closing price reported on the active markets on which the individual securities are traded.

Corporate 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.

U.S. government securities are valued by a third-party pricing source using pricing models maximizing the use of observable inputs for same or similar securities.

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2022:

	<u>Level 1</u>	<u>Total</u>
Money market fund	\$ 380,067	\$ 380,067
Mutual funds:		
Fixed income	2,542,117	2,542,117
Growth	1,351,971	1,351,971
Equity	647,240	647,240
Mid-cap	703,340	703,340
Large value	1,009,723	1,009,723
Small cap	111,369	111,369
Emerging markets	290,175	290,175
Real estate	179,787	179,787
Insitutional	116,581	116,581
Exchange traded	143,519	143,519
U.S. government securities	968,940	968,940
Total investments	<u>\$ 8,444,829</u>	<u>\$ 8,444,829</u>

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Notes to Consolidated Financial Statements

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market fund	\$ 233,023	\$ -	\$ 233,023
Mutual funds:			
Fixed income	3,297,509	-	3,297,509
Growth	1,818,628	-	1,818,628
Equity	1,274,648	-	1,274,648
Mid-cap	988,305	-	988,305
Large value	1,149,113	-	1,149,113
Small cap	138,778	-	138,778
Emerging markets	394,367	-	394,367
Real estate	312,925	-	312,925
Corporate bonds	-	382,839	382,839
Total investments	<u>\$ 9,607,296</u>	<u>\$ 382,839</u>	<u>\$ 9,990,135</u>

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

	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 217,192	\$ 183,457
Realized investment gains	324,978	78,858
Unrealized gains (losses) on investments	(2,026,991)	799,525
Less: investment fees	<u>(48,332)</u>	<u>(45,797)</u>
	<u>\$ (1,533,153)</u>	<u>\$ 1,016,043</u>

The following table presents securities which represent 10% or more of total investments at September 30, 2022:

Frost Total Return Bond Fund Institutional Class	13%
Frost Growth Equity Fund Institutional Class	11%
MFS Value Fund Class R6	11%

The following table presents securities which represent 10% or more of total investments at September 30, 2021:

Frost Total Return Bond Fund Institutional Class	11%
Frost Growth Equity Fund Institutional Class	12%
Ishares S&P 500 Stock Index Fund Class K	12%
MFS Value Fund Class R6	11%

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5. Employee Retention Credit

The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, amended and extended the Employee Retention Credit (ERC) of the CARES Act. The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before June 30, 2021. Employers are eligible for the credit if they met certain criteria that include either a full or partial suspension of operations during any calendar quarter of 2020 and the first and second quarters of 2021 due to government orders or a significant decline on gross receipts. The Association has determined it is eligible for the ERC in the amount of approximately \$130,000. This amount is included in other receivable on the consolidated statements of financial position at September 30, 2022. The amount was recorded as other income on the consolidated statements of activities for the year ended September 30, 2022.

6. Property and Equipment

Property and equipment consists of the following at September 30:

	2022	2021
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,373,870	2,345,485
Automobiles and trailers	83,967	83,967
Furniture and equipment	1,095,561	1,070,299
Software	2,473,360	2,452,995
Construction in progress	-	6,396
Total property and equipment	6,166,546	6,098,930
Accumulated depreciation	(4,770,508)	(4,648,412)
Net property and equipment	\$ 1,396,038	\$ 1,450,518

For the years ended September 30, 2022 and 2021, the Association incurred depreciation expense of approximately \$122,000 and \$135,000, respectively.

7. Note Payable

The Association entered into a promissory note with a bank requiring monthly payments of principal totaling \$493 through November 2023. The note accrues interest at 0% and is collateralized by a vehicle. The balance at September 30, 2022 is \$6,406.

Principal payments for the years ending September 30, are as follows:

2023	\$ 5,913
2024	493
	\$ 6,406

National Cutting Horse Association and Affiliate

Notes to Consolidated Financial Statements

8. Board Designated Net Assets

Net assets without donor restrictions totaling \$413,319 and \$399,125 as of September 30, 2022 and 2021, respectively, have been designated by the board of directors for the youth fund.

9. Net Assets With Donor Restriction

Net assets with donor restrictions as of September 30, 2022 and 2021 are available for PAC-related expenditures.

10. 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, 2022 and 2021, the Association received \$2,086,794 and \$1,973,682, respectively. This revenue is included in shows and related activities on the accompanying consolidated statements of activities. As of September 30, 2022 and 2021, the Association had receivables related to state incentive reimbursements totaling \$2,086,794 and \$1,073,990, respectively.

11. 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, 2022 and 2021, the Association made matching contributions of approximately \$63,000 and \$68,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the years ended September 30, 2022 and 2021.

12. 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.

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The stallion fee chart is below:

November 30th 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.

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

	2022	2021
Stallion fees collected for the 2022 Super Stakes	\$ -	\$ 106,100
Stallion fees collected for the 2023 Super Stakes	333,400	333,400
Stallion fees collected for the 2024 Super Stakes	304,500	302,900
Stallion fees collected for the 2025 Super Stakes	293,400	284,200
Stallion fees collected for the 2026 Super Stakes	301,500	287,900
Stallion fees collected for the 2027 Super Stakes	226,400	26,000
Stallion fees collected for the 2028 Super Stakes	5,200	-
Total stallion fees collected	1,464,400	1,340,500
Foal fees collected for the 2022 Super Stakes	\$ -	\$ 577,500
Foal fees collected for the 2023 Super Stakes	658,800	562,200
Foal fees collected for the 2024 Super Stakes	544,100	438,400
Foal fees collected for the 2025 Super Stakes	444,400	40,800
Foal fees collected for the 2025 Super Stakes	28,400	-
Total foal fees collected	1,675,700	1,618,900
Deferred revenue for stallion/foal fees	\$ 3,140,100	\$ 2,959,400

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13. 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, 2022:

	Future Shows	Membership Dues	Sponsorship Revenue	Total
Deferred revenue, beginning of year	\$ 3,865,883	\$ 256,007	\$ 514,925	\$ 4,636,815
Revenue recognized that was included in deferred revenue at the beginning of the year	(3,865,883)	(49,612)	(514,925)	(4,430,420)
Increase in deferred revenue due to cash received during the year for subsequent year services	<u>4,277,475</u>	<u>9,300</u>	<u>455,521</u>	<u>4,742,296</u>
Deferred revenue, end of year	<u>\$ 4,277,475</u>	<u>\$ 215,695</u>	<u>\$ 455,521</u>	<u>\$ 4,948,691</u>

The following table provides information about changes in other deferred revenue as of September 30, 2021:

	Future Shows	Membership Dues	Sponsorship Revenue	Total
Deferred revenue, beginning of year	\$ 3,396,881	\$ 315,479	\$ 239,590	\$ 3,951,950
Revenue recognized that was included in deferred revenue at the beginning of the year	(3,396,881)	(61,247)	(239,590)	(3,697,718)
Increase in deferred revenue due to cash received during the year for subsequent year services	<u>3,865,883</u>	<u>1,775</u>	<u>514,925</u>	<u>4,382,583</u>
Deferred revenue, end of year	<u>\$ 3,865,883</u>	<u>\$ 256,007</u>	<u>\$ 514,925</u>	<u>\$ 4,636,815</u>

14. 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 2024, bears interest at prime rate as published in the Wall Street Journal (6.25% at September 30, 2022), and is secured by certain investment accounts also held at the financial institution. No amounts were due under the note at September 30, 2022 and 2021.

15. 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, 2022 and 2021, respectively, the Association received fees of approximately \$1,858,000 and \$1,343,000 from these affiliates. Expenses related to these affiliate contests for the years ended September 30, 2022 and 2021 totaled approximately \$1,004,000 and \$590,000, respectively.

National Cutting Horse Association and Affiliate Notes to Consolidated Financial Statements

The Association pays insurance costs on behalf of the affiliates, which totaled approximately \$28,000 and \$27,000 for the years ended September 30, 2022 and 2021, respectively.

16. Related-Party Transactions

NCHA Charities Foundation (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, 2022 and 2021, respectively, the Association had a receivable of approximately \$13,000 and \$9,000, 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.

17. Contributed Nonfinancial Assets

The Association received contributions of nonfinancial assets of awards totaling \$186,100 during the year ended September 30, 2022. The amount was fully allocated to program services and there were no donor restrictions related to these contributions. The value was based on the fair market value of similar goods for sale online (or exact items if available).

18. 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 consolidated financial position or results of operations.

Office Equipment Leases

The Association leases certain office equipment under operating leases which mature in 2027. Rental expense under these leases approximated \$54,000 and \$56,000 for the years ended September 30, 2022 and 2021, respectively. Future minimum lease payments consist of the following amounts for the years ended September 30:

2023	\$ 45,180
2024	40,164
2025	12,140
2026	6,252
2027	<u>5,731</u>
	<u>\$ 109,467</u>

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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 \$1,035,000 and \$1,043,000 during the years ended September 30, 2022 and 2021, respectively.

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

2023	\$ 423,830
2024	446,550
2025	466,550
2026	476,550
2027	486,550
Thereafter	<u>717,300</u>
	<u><u>\$ 3,017,330</u></u>

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, 2022 and 2021, the Association received approximately \$1,635,000 and \$938,000, 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.

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Notes to Consolidated Financial Statements

19. Liquidity and Availability of Resources

The Association's financial assets available within one year of the consolidated statements of financial position date of September 30, 2022 and 2021 for general expenditures are as follows:

	2022	2021
Cash	\$ 7,072,957	\$ 5,609,982
Restricted cash - PAC	70,225	113,938
Investments	8,444,829	9,990,135
Accounts receivable	341,835	475,183
Accounts receivable - State of Texas incentives	2,086,794	1,073,990
Accounts receivable - related party	12,766	9,012
Other receivable	130,000	-
Total financial assets	18,159,406	17,272,240
Less amounts unavailable for general expenditures within one year, due to:		
Entry fees/sponsorships for future shows	4,732,996	4,380,808
Stallion/Foal program	3,140,100	2,959,400
Board-designated youth fund	413,319	399,125
Donor restricted net assets for PAC expenditures	133,680	159,566
Financial assets not available for general expenditures	8,420,095	7,898,899
Total financial assets available to meet cash needs for general expenditures within one year	\$ 9,739,311	\$ 9,373,341

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, 2022 and 2021, the level of liquidity was managed within the Association's expectations.

20. Subsequent Events

During December 2022, the Association received the ERC plus interest totaling approximately \$130,000.

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.