

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

**Years Ended December 31, 2007 and 2006
with Report of Independent Auditors**

NATIONAL CUTTING HORSE ASSOCIATION

FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
National Cutting Horse Association

We have audited the accompanying statement of financial position of National Cutting Horse Association, a not-for-profit organization, as of December 31, 2007, and the related statements of activities and changes in net assets, and cash flows for the year 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 audit. The financial statements of National Cutting Horse Association as of and for the year ended December 31, 2006, were audited by other auditors whose report dated June 15, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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 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 audit provides 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 Association as of December 31, 2007 and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B of the accompanying notes to financial statements, the Association adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* during the year ended December 31, 2007.



Fort Worth, Texas
June 13, 2008

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2007	2006
Assets		
Cash and cash equivalents	\$ 1,451,499	\$ 2,863,581
Accounts receivable, net of allowance for doubtful accounts of \$23,805 and \$17,287, respectively	1,552,638	1,341,576
Accrued interest receivable	111,368	115,238
Investments	6,719,925	6,700,189
Inventory	8,141	9,442
Prepaid expenses and other assets	192,124	157,887
Property and equipment, net	2,334,702	2,313,080
Collections (Note F)	-	-
	<u>\$ 12,370,397</u>	<u>\$ 13,500,993</u>
Liabilities and Net Assets		
Liabilities:		
Bank overdraft	\$ -	\$ 2,157,321
Accounts payable	1,330,723	1,192,173
Other accrued liabilities	54,002	78,152
Deferred revenue for future shows	1,966,734	2,352,905
Deferred membership dues	1,064,739	877,486
Deferred revenue, other	234,175	77,566
Youth scholarship awards	382,817	323,753
Liability for pension obligation	849,782	889,196
Total liabilities	<u>5,882,972</u>	<u>7,948,552</u>
Commitments and contingencies	-	-
Net assets:		
Unrestricted:		
Undesignated	5,857,310	5,089,246
Designated by the governing board for Youth funds	487,996	463,195
Total unrestricted	<u>6,345,306</u>	<u>5,552,441</u>
Temporarily restricted	142,119	-
Total net assets	<u>6,487,425</u>	<u>5,552,441</u>
Total liabilities and net assets	<u>\$ 12,370,397</u>	<u>\$ 13,500,993</u>

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31,	
	2007	2006
	<u> </u>	<u> </u>
Unrestricted Net Assets		
Unrestricted revenues and gains		
Entry fees	\$ 8,325,015	\$ 7,770,464
Show fees	2,764,253	2,802,805
Advertising	2,324,495	2,170,007
Sponsorships	1,942,323	1,667,179
Stall rentals and practice pen	1,462,848	1,330,605
Affiliate income	1,197,190	1,189,906
Dues and fees	1,076,131	979,749
Purse sponsors	775,000	713,725
Horse sales and catalogues	762,500	750,000
Booth exhibit rental	522,983	532,212
Stallion subscription fees	570,508	560,865
Tickets	530,060	505,059
Expense allowance	304,335	289,217
Fund-raising events, net revenue generated	220,083	127,957
Interest and dividends	399,707	363,796
Other income	430,359	422,030
	<u>23,607,790</u>	<u>22,175,576</u>
Total unrestricted revenues and support		
Net assets released from restrictions	819,515	710,213
	<u>24,427,305</u>	<u>22,885,789</u>
Unrestricted expenses and losses:		
Premiums, including sire awards, NCHA day, and affiliate challenge	11,533,306	10,797,339
Salaries and benefits	1,886,937	1,771,994
Cattle	1,841,218	1,788,276
Awards	1,235,342	1,078,113
Printing	798,341	757,148
Equipment and facilities rent	908,065	839,223
Outside labor, judges, and show staff	1,133,291	962,924
Sponsor cost	600,912	544,265
Project, promotional, and public relations	729,773	746,132
Stall rentals and practice pen expenses	245,586	239,517
Advertising	218,886	156,024

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended December 31,	
	2007	2006
Unrestricted expenses and losses - continued:		
Pension expense	140,323	60,258
Postage	276,249	241,674
Insurance	329,647	299,731
Taxes	214,683	182,946
Coliseum preparation	181,503	171,743
Professional fees and contract labor	587,048	421,683
Depreciation	135,841	141,231
Realized investment (gains) losses	(19,421)	61,538
Unrealized (increase) decrease in market value of investments	(259,848)	(46,310)
Loss on disposals of property and equipment	592	66
Other expenses	923,328	1,048,617
Total unrestricted expenses and losses	23,641,602	22,264,132
Increase in unrestricted net assets before effect of adoption of SFAS No. 158	785,703	621,657
Effect of adoption of SFAS No. 158	7,162	-
Net increase in unrestricted net assets	792,865	621,657
Temporarily Restricted Net Assets		
Restricted contributions:		
State of Texas incentives	961,634	710,213
Net assets released from restrictions:		
Restrictions satisfied by payments	(819,515)	(710,213)
Net increase in temporarily restricted net assets	142,119	-
Net increase in net assets	934,984	621,657
Net assets at beginning of year	5,552,441	4,930,784
Net assets at end of year	\$ 6,487,425	\$ 5,552,441

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
Operating Activities		
Net increase in net assets	\$ 934,984	\$ 621,657
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	135,841	141,231
Loss on disposals of property and equipment	592	66
Net realized and unrealized (gains) losses on investments	(279,269)	15,228
Loss upon adoption of SFAS No. 158	7,162	-
Changes in operating assets and liabilities:		
Accounts receivable	(211,062)	(763,880)
Accrued interest receivable	3,870	(26,052)
Inventory	1,301	2,429
Prepaid expenses and other assets	(34,237)	(22,329)
Accounts payable and accrued liabilities	114,400	108,947
Deferred revenue for future shows	(386,171)	(119,281)
Deferred membership dues	187,253	104,681
Deferred revenue, other	156,609	(61,809)
Youth scholarship awards	59,064	71,324
Liability for pension obligation	(46,576)	(87,920)
Net cash provided by (used in) operating activities	643,761	(15,708)
Investing Activities		
Purchases of investments	(3,740,467)	(2,888,968)
Proceeds from sale of investments	4,000,000	1,818,592
Purchases of property and equipment	(158,055)	(59,238)
Net cash provided by (used in) investing activities	101,478	(1,129,614)
Financing Activities		
Bank overdraft	(2,157,321)	2,157,321
Net increase (decrease) in cash and cash equivalents	(1,412,082)	1,011,999
Cash and cash equivalents at beginning of year	2,863,581	1,851,582
Cash and cash equivalents at end year	\$ 1,451,499	\$ 2,863,581

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

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 Association's corporate offices are located in Fort Worth, Texas

B. Summary of Significant Accounting Policies

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 and reflect all significant receivables, payables, and other liabilities.

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 those estimates.

Financial Statement Presentation

The Association presents its financial statement in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS No. 116, time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies

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.

Investments

The Association follows the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. 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 of the respective period.

Accounts Receivable

Accounts receivable from sponsorship agreements are based on agreed-upon prices. 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 the 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory

Inventory consists primarily of DVDs and videotapes, and is 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 related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting gain or loss is reflected in the statement of activities of the respective period. 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

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Property and Equipment – continued

Donations of property and equipment are recorded as support at their estimated fair value at the time of receipt, when significant. 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 Revenue

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. It is the Association's policy to amortize lifetime membership dues over twelve years and three year memberships over three years.

Advertising

Advertising costs are expensed as incurred and included 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 by the Association's magazine, *The Cutting Horse Chatter*, is considered unrelated business income and is reported as such for tax-reporting purposes. During 2007 and 2006, unrelated business income was not significant and therefore, no provision for income taxes was recorded in the accompanying financial statements.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Donated Services

A large number of people have contributed significant amounts of time to the activities of the Association without compensation. The accompanying financial statements do not reflect the value of such contributed services because, although clearly substantial, no reliable basis exists for determining an appropriate amount.

The Association records donated services, that otherwise normally require payment in its financial statement at fair value, as determined by the donor. These donated services relate primarily to advertising and have been recorded as unrestricted revenue and expenses in the accompanying statements of activities.

Changes in Accounting Principles

The Financial Accounting Standards Board recently issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* – an amendment of SFAS No. 87, 88, 106 and 132(R), which the Association adopted as of the beginning of the year ended December 31, 2007. SFAS No. 158 requires all entities to recognize the funded status of defined benefit plans in the statement of financial position. Under SFAS No. 158, all underfunded defined benefit plans are aggregated and recorded as a liability and all overfunded defined benefit plans are aggregated and recorded as an asset. The Association recorded an adjustment of \$7,162 upon adoption, which resulted in a pension plan liability of \$849,782 as of December 31, 2007.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation

C. Cash and Cash Equivalents

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

	<u>2007</u>	<u>2006</u>
Cash	\$ 578,455	\$ 64,879
Cash equivalents	<u>873,044</u>	<u>2,798,702</u>
Total cash and cash equivalents	<u>\$ 1,451,499</u>	<u>\$ 2,863,581</u>

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

D. Investments

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

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 3,646	\$ 3,646	\$ 3,548	\$ 3,548
U.S. government agency bonds	<u>6,527,462</u>	<u>6,716,279</u>	<u>6,767,672</u>	<u>6,696,641</u>
Total investments	<u>\$ 6,531,108</u>	<u>\$ 6,719,925</u>	<u>\$ 6,771,220</u>	<u>\$ 6,700,189</u>

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

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 399,707	\$ 363,796
Net realized gains (losses)	19,421	(61,538)
Net unrealized gains	259,848	46,310
Investment management fees	<u>(37,704)</u>	<u>(34,251)</u>
Net investment income, including realized and unrealized gains and losses	<u>\$ 641,272</u>	<u>\$ 314,317</u>

E. Property and Equipment

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

	<u>2007</u>	<u>2006</u>
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,284,726	2,249,726
Automobiles and trailers	31,022	31,563
Office furniture and equipment	<u>838,959</u>	<u>800,012</u>
Total property and equipment	3,294,495	3,221,089
Less accumulated depreciation	<u>959,793</u>	<u>908,009</u>
Property and equipment, net	<u>\$ 2,334,702</u>	<u>\$ 2,313,080</u>

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

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.

Items that are acquired with the intent to sell, exchange, or otherwise use for financial gain are not considered collection items and are recorded as other assets at their fair value at the date of acquisition.

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 dues and other member dues represent money received in advance for future periods of activity. Deferred membership dues, for the years ended December 31, were composed of the following:

	2007	2006
Membership dues	\$ 873,291	\$ 699,548
Non-pro dues	149,695	134,540
First class dues	26,405	29,432
Other member dues	15,348	13,966
Total deferred membership dues	\$ 1,064,739	\$ 877,486

H. Unrestricted Net Assets – Board Designated

As of December 31, 2007 and 2006, approximately \$487,000 and \$463,000 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.

I. Temporarily Restricted Net Assets

The State of Texas provides incentives to the Organization that are restricted for the purpose of bettering shows held in the Fort Worth area. During 2007, the Board of Directors started setting aside a portion of these temporarily restricted funds received for use in future purses. As of December 31, 2007, approximately \$142,000 received during 2007 is available for future purses and is included in temporarily restricted net assets in the accompanying statements of financial position. There were no such amounts at December 31, 2006.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

J. Other Income and Expenses

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

	<u>2007</u>	<u>2006</u>
Other income:		
Commissions, royalties and merchandise	\$ 222,584	\$ 205,739
Convention registration	19,120	21,440
Fines and protests	35,950	28,075
Horse records	10,920	10,704
Judges - seminars and fees	20,690	40,450
Miscellaneous income	28,445	63,687
Other show fees	12,150	11,975
Other show revenue	80,500	39,960
	<u> </u>	<u> </u>
Total other income	<u>\$ 430,359</u>	<u>\$ 422,030</u>
	<u>2007</u>	<u>2006</u>
Other expenses:		
Bad debts	\$ 12,492	\$ 12,168
Bank charges	177,116	157,701
Committee expenses	76,165	49,125
Convention expenses	100,333	68,983
Hospitality	45,222	37,236
Miscellaneous expenses	134,077	279,587
Office supplies	60,937	52,317
Repairs and maintenance	14,412	82,454
Travel	87,595	88,389
Utilities	99,779	106,609
Vehicle allowance	115,200	114,048
	<u> </u>	<u> </u>
Total other expenses	<u>\$ 923,328</u>	<u>\$ 1,048,617</u>

K. 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.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

K. 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:

	<u>2007</u>	<u>2006</u>
Projected benefit obligation at December 31	\$ 1,639,754	\$ 1,607,286
Fair value of plan assets at December 31	<u>789,972</u>	<u>643,582</u>
Funded status	<u>\$ (849,782)</u>	<u>\$ (963,704)</u>
Accumulated benefit obligation (all vested)	<u>\$ 1,565,673</u>	<u>\$ 1,532,778</u>
Benefit costs	\$ 97,765	\$ 106,417
Employer contributions	130,017	107,874
Plan participant contributions	-	-
Benefits paid	35,733	35,986
Weighted-average assumptions as of December 31:		
Discount rate	6.00%	5.75%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

	<u>2007</u>
Amounts not recognized or components of net periodic pension cost in the statements of financial position:	
Unrecognized actuarial loss	\$ 836,015

It is anticipated that \$56,427 of the unrecognized actuarial loss will be recognized as a component of net periodic pension cost in 2008.

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:

2008	\$ 37,834
2009	107,321
2010	35,048
2011	34,758
2012	34,760
2013 to 2017	<u>854,550</u>
Total benefits expected to be paid	<u>\$ 1,104,271</u>

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

K. Benefit Plans – continued

The Pension Plan's assets as of December 31, 2007, were invested 46% in equity securities, 44% in debt securities, and 10% in cash and cash equivalents. As of December 31, 2006, the Pension Plan's assets were invested 48% in equity securities, 48% in debt securities, and 4% in cash and cash equivalents.

The Association expects to contribute approximately \$280,000 to the Pension Plan in 2008.

Effective January 31, 2004, additional service and pay increases will not be recognized for benefit determination for the Pension Plan. No new entrants will be allowed to join the Plan and generally, no new benefits are being earned. The Plan is frozen for all participants, regardless of length of service to the Association as of January 1, 2005.

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 each of the years ended December 31, 2007 and 2006, the Association made matching contributions of approximately \$35,000. The Association made no discretionary contributions to the Deferred Plan during 2007 and 2006.

L. Concentrations of Credit Risk

The Association maintains cash deposits at two financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of December 31, 2007 and 2006, the uninsured portions of these deposits were approximately \$2,696,000 and \$747,000, respectively. The Association has not experienced any losses related to uninsured deposits.

Entry fees, purse sponsorships, and other monies collected in advance of future shows are invested in money market accounts, certificates of deposit, U. S. government agency bonds, and U S. Treasury bills and notes, which consist of fully-insured liquid assets in various financial institutions.

At December 31, 2007, approximately 50% of the Association's accounts receivable was comprised of outstanding amounts due from two sponsors, which were subsequently collected during 2008. Approximately 63% of the Association's accounts receivable at December 31, 2006, was comprised of outstanding amounts due from two sponsors, which were subsequently collected in 2007. All receivables are unsecured and are not pledged as collateral or limited in use.

M. Fund-Raising Events

The Association holds annual fund-raising events for the youth department and reports the revenue generated, net of any direct operating costs, as revenues in the accompanying statement of activities. There were direct costs of approximately \$11,000 during 2007 related to the youth fund-raiser. There were no direct costs related to this fund-raiser during 2006.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

N. 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 2007, the Association disbursed approximately \$11,000 to the Foundation. Amounts included in accounts receivable from the Foundation as of December 31, 2007 and 2006, were approximately \$5,000 and \$10,000, respectively, for net reimbursement of scholarships written on behalf of the Foundation. 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, 2007 and 2006.

The Western Heritage Museum exists to preserve and display various artifacts of the cutting horse industry history and tradition through donations of both cash and artifacts from current members of the Association as well as family of past members. The museum is subject to the rules and regulations of the Association and strives to promote the best interests of preserving the history of the Association. The Association had no transactions with the Western Heritage Museum during the years ended December 31, 2007 or 2006.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the fiscal years ended December 31, 2007 and 2006, the Association received entry fees of approximately \$1,160,000 and \$1,153,000, respectively, from these affiliates. Fees received from affiliates for use of the Association's software during 2007 and 2006 was \$37,000 and \$38,000, respectively. Awards were paid during 2007 and 2006 to affiliates meeting the requirements of a competitive program. The amounts paid during each of the years ended December 31, 2007 and 2006 totaled approximately \$54,000. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During 2007 and 2006, show software costs of approximately \$55,000 and \$51,000, respectively, were reimbursed to affiliates.

O. Commitments and Contingencies

From time to time, the Association is involved in various suits 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 and 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 6% of all entry fees to the Association. As of December 31, 2007 and 2006, approximately \$4,000, was still receivable from the contestants. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Association.

NATIONAL CUTTING HORSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (continued)

O. Commitments and Contingencies – continued

The Association leases certain office equipment under a four-year, non-cancelable operating lease maturing in May 2008. Annual rental expense under this lease approximated \$4,000 for each of the years ended December 31 2007 and 2006. On April 1, 2008, the Association extended this lease for another five-year period, with annual rental payments of approximately \$5,000. Minimum lease payments under this lease approximates \$4,000 for 2008, \$5,000 for 2009 through 2012, and \$2,000 thereafter.

The Association leases facilities for three different shows to be held each year under a five-year operating lease maturing in May 2010. 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. The amount paid during 2007 and 2006 for the facilities rental under the lease was approximately \$304,000 and \$329,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for the years 2008 through 2010.

On April 12, 2006, the Association entered a three-year operating lease for the rental of facilities for one show to be held annually. The Association has the option to extend for two additional years with comparable dates and costs. The amounts paid during 2007 and 2006 for the facilities rental was \$40,000 each year. Minimum rentals, on an annual basis, are approximately \$40,000 for 2008 and 2009.

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. 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, 2007. During 2007 and 2006, the Association's share of development costs borne by the AQHA were \$75,000.