

**NATIONAL CUTTING  
HORSE ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2008 and 2007  
with Report of Independent Auditors**

**NATIONAL CUTTING HORSE ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2008 and 2007**

**Table of Contents**

Report of Independent Auditors .....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets .....	3
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6

**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, 2008 and 2007, 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. 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 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, 2008 and 2007 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.



Fort Worth, Texas  
June 16, 2009

**NATIONAL CUTTING HORSE ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,601,841	\$ 1,451,499
Accounts receivable, net of allowance for doubtful accounts of \$26,833 and \$23,805, respectively	1,531,751	1,552,638
Accrued interest receivable	76,905	111,368
Investments	6,808,503	6,719,925
Inventory	10,127	8,141
Prepaid expenses and other assets	249,768	192,124
Property and equipment, net	2,283,645	2,334,702
Collections (Note F)	-	-
	<u>\$ 12,562,540</u>	<u>\$ 12,370,397</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Bank overdraft	\$ 1,036,881	\$ -
Accounts payable	876,601	1,330,723
Other accrued liabilities	82,977	54,002
Deferred revenue for future shows	1,827,686	1,966,734
Deferred membership dues	959,112	1,064,739
Deferred revenue, other	146,314	234,175
Youth scholarship awards	438,687	382,817
Liability for pension obligation	680,303	849,782
Total liabilities	<u>6,048,561</u>	<u>5,882,972</u>
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Undesignated	5,441,357	5,857,310
Designated by the governing board for Youth funds	506,189	487,996
Total unrestricted	<u>5,947,546</u>	<u>6,345,306</u>
Temporarily restricted	566,433	142,119
Total net assets	<u>6,513,979</u>	<u>6,487,425</u>
Total liabilities and net assets	<u>\$ 12,562,540</u>	<u>\$ 12,370,397</u>

See accompanying notes to financial statements.

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

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<hr/>	<hr/>
<b>Unrestricted Net Assets</b>		
Unrestricted support and income:		
Entry fees	\$ 8,537,664	\$ 8,325,015
Show fees	2,845,297	2,844,753
Advertising	1,998,958	2,324,495
Sponsorships	2,068,009	1,942,323
Stall rentals and practice pen	1,512,797	1,462,848
Affiliate income	1,168,515	1,197,190
Dues and fees	796,713	1,076,131
Purse sponsors	778,125	775,000
Horse sales and catalogues	675,000	762,500
Booth exhibit rental	524,719	522,983
Stallion subscription fees	539,429	570,508
Tickets	466,472	530,060
Expense allowance	293,651	304,335
Fund-raising events	193,067	220,083
Realized investment gains	244,673	19,421
Unrealized increases in market value of investments	111,033	259,848
Interest and dividends	328,007	399,707
Other income	436,333	349,859
Total unrestricted support and income	<hr/> 23,518,462	<hr/> 23,887,059
Net assets released from restrictions	853,672	819,515
Total additions to unrestricted net assets	<hr/> 24,372,134	<hr/> 24,706,574
 Unrestricted expenses and losses:		
Premiums, including sire awards, NCHA day, and affiliate challenge	11,558,861	11,533,306
Salaries and benefits	2,021,394	1,886,937
Cattle	2,007,348	1,841,218
Awards	1,232,106	1,235,342
Printing	730,824	798,341
Equipment and facilities rent	956,095	908,065
Outside labor, judges, and show staff	1,207,276	1,133,291
Sponsor cost	651,826	600,912
Project, promotional, and public relations	884,416	729,773

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**

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

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Unrestricted expenses and losses - continued:		
Stall rentals and practice pen expenses	272,015	245,586
Advertising	164,230	218,886
Pension expense	116,766	140,323
Postage	268,890	276,249
Insurance	373,156	329,647
Taxes	186,676	214,683
Coliseum preparation	215,402	181,503
Professional fees and contract labor	716,472	587,048
Depreciation	138,850	135,841
Losses on disposals of property and equipment	522	592
Other expenses	1,010,356	923,328
Total unrestricted expenses and losses	24,713,481	23,920,871
Increase (decrease) in unrestricted net assets before effect of Statement of Financial Accounting Standards No. 158	(341,347)	785,703
Effect of Statement of Financial Accounting Standards No. 158	(56,413)	7,162
Net increase (decrease) in unrestricted net assets	(397,760)	792,865
<b>Temporarily Restricted Net Assets</b>		
Restricted contributions:		
State of Texas incentives	1,277,986	961,634
Net assets released from restrictions:		
Restrictions satisfied by payments	(853,672)	(819,515)
Net increase in temporarily restricted net assets	424,314	142,119
Net increase in net assets	26,554	934,984
Net assets at beginning of year	6,487,425	5,552,441
Net assets at end of year	\$ 6,513,979	\$ 6,487,425

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net increase in net assets	\$ 26,554	\$ 934,984
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation	138,850	135,841
Losses on disposals of property and equipment	522	592
Net realized and unrealized gains on investments	(355,706)	(279,269)
Restricted contributions	(1,277,986)	(961,634)
Effect of Statement of Financial Accounting Standards No. 158	(56,413)	7,162
Changes in operating assets and liabilities:		
Accounts receivable	20,887	(211,062)
Accrued interest receivable	34,463	3,870
Inventory	(1,986)	1,301
Prepaid expenses and other assets	(57,644)	(34,237)
Accounts payable and other accrued liabilities	(425,147)	114,400
Deferred revenue for future shows	(139,048)	(386,171)
Deferred membership dues	(105,627)	187,253
Deferred revenue, other	(87,861)	156,609
Youth scholarship awards	55,870	59,064
Liability for pension obligation	(113,066)	(46,576)
Net cash used in operating activities	(2,343,338)	(317,873)
<b>Investing Activities</b>		
Purchases of investments	(6,499,368)	(3,740,467)
Proceeds from sales of investments	6,766,496	4,000,000
Purchases of property and equipment	(88,315)	(158,055)
Net cash provided by investing activities	178,813	101,478
<b>Financing Activities</b>		
Bank overdraft	1,036,881	(2,157,321)
Restricted contributions	1,277,986	961,634
Net cash provided by (used in) financing activities	2,314,867	(1,195,687)
Net increase (decrease) in cash and cash equivalents	150,342	(1,412,082)
Cash and cash equivalents at beginning of year	1,451,499	2,863,581
Cash and cash equivalents at end of year	\$ 1,601,841	\$ 1,451,499

See accompanying notes to financial statements.

# NATIONAL CUTTING HORSE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

### 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

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 ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### Financial Statement Presentation

The Association presents its financial statements 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 or purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time or purpose restriction.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (*continued*)

#### **B. Summary of Significant Accounting Policies – continued**

##### **Cash and Cash Equivalents**

The Association considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents (see Note C). The Association maintains deposits in one financial institution, 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 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 and changes in net assets of the respective period.

Effective January 1, 2008, the Association adopted SFAS No. 157, *Fair Value Measurements*, and such adoption did not have a material impact on the financial statements of the Association and did not result in a cumulative effect adjustment to beginning net assets. SFAS No. 157 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 SFAS No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the assets or liabilities have a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets or liabilities.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

# NATIONAL CUTTING HORSE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS *(continued)*

### **B. Summary of Significant Accounting Policies – continued**

#### **Accounts Receivable**

Accounts receivable from sponsorship agreements is 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 an 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 the 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 and changes in net assets 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

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.

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (*continued*)

#### **B. Summary of Significant Accounting Policies – continued**

##### **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 2008 and 2007, unrelated business income was not significant and therefore, no provision for income taxes was recorded in the accompanying financial statements.

In July 2006 the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an Interpretation of SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition and measurement of a tax position taken in a tax return. The Association must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The FASB deferred the effective date of FIN 48 to fiscal years beginning after December 15, 2008. The Association does not believe the effect of adopting FIN 48 will have a material impact on its financial position or results of operations.

##### **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 services. 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 financial statements, because the recognition criteria under GAAP were not met.

##### **Reclassifications**

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

**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>2008</u>	<u>2007</u>
Cash	\$ 300	\$ 578,455
Cash equivalents	<u>1,601,541</u>	<u>873,044</u>
Total cash and cash equivalents	<u>\$ 1,601,841</u>	<u>\$ 1,451,499</u>

**D. Investments**

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

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 3,731	\$ 3,731	\$ 3,646	\$ 3,646
Corporate bonds	1,285,815	1,288,602	-	-
Foreign bonds	514,160	528,045	-	-
Municipal bonds	512,545	511,575	-	-
Short term investments	249,000	249,000	-	-
U.S. government agency bonds	<u>3,943,402</u>	<u>4,227,550</u>	<u>6,527,462</u>	<u>6,716,279</u>
Total investments	<u>\$ 6,508,653</u>	<u>\$ 6,808,503</u>	<u>\$ 6,531,108</u>	<u>\$ 6,719,925</u>

The market value of the Association's investments was based on Level 1 Inputs, as defined by SFAS No. 157, *Fair Value Measurements*, which represent quoted prices of the individual investments in an active market.

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

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 328,007	\$ 399,707
Net realized gains	244,673	19,421
Net unrealized gains	111,033	259,848
Investment management fees	<u>(45,060)</u>	<u>(37,704)</u>
Net investment income, including realized and unrealized gains and losses	<u>\$ 638,653</u>	<u>\$ 641,272</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>2008</u>	<u>2007</u>
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,284,726	2,284,726
Automobiles and trailers	31,022	31,022
Office furniture and equipment	907,086	838,959
Total property and equipment	<u>3,362,622</u>	<u>3,294,495</u>
Less accumulated depreciation	<u>1,078,977</u>	<u>959,793</u>
Property and equipment, net	<u>\$ 2,283,645</u>	<u>\$ 2,334,702</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.

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, at December 31, were composed of the following:

	<u>2008</u>	<u>2007</u>
Membership dues	\$ 806,746	\$ 873,291
Non-pro dues	124,335	149,695
First-class dues	18,190	26,405
Other member dues	<u>9,841</u>	<u>15,348</u>
Total deferred membership dues	<u>\$ 959,112</u>	<u>\$ 1,064,739</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**H. Unrestricted Net Assets – Board Designated**

As of December 31, 2008 and 2007, approximately \$506,000 and \$488,000 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.

**I. Temporarily Restricted Net Assets**

The State of Texas provides incentives to the Association 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, 2008 and 2007, approximately \$566,000 and \$142,000, respectively is available for future purses and is included in temporarily restricted net assets in the accompanying statements of financial position. These temporarily restricted amounts were held in investments at December 31, 2008 and 2007.

**J. Other Income and Expenses**

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

	<b>2008</b>	<b>2007</b>
<b>Other income:</b>		
Commissions, royalties and merchandise	\$ 218,799	\$ 222,584
Convention registration	28,145	19,120
Fines and protests	16,191	35,950
Horse records	12,960	10,920
Judges - seminars and fees	57,187	20,690
Miscellaneous income	92,851	28,445
Other show fees	10,200	12,150
	<u>\$ 436,333</u>	<u>\$ 349,859</u>
	<b>2008</b>	<b>2007</b>
<b>Other expenses:</b>		
Bad debts	\$ 13,050	\$ 12,492
Bank charges	178,746	177,116
Committee expenses	86,137	76,165
Convention expenses	111,440	100,333
Hospitality	48,623	45,222
Miscellaneous expenses	182,448	134,077
Office supplies	66,497	60,937
Repairs and maintenance	13,005	14,412
Travel	88,237	87,595
Utilities	106,973	99,779
Vehicle allowance	115,200	115,200
	<u>\$ 1,010,356</u>	<u>\$ 923,328</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**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.

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

	<b>2008</b>	<b>2007</b>
Projected benefit obligation at December 31	\$ 1,520,924	\$ 1,639,754
Fair value of plan assets at December 31	840,621	789,972
Funded status	\$ (680,303)	\$ (849,782)
Accumulated benefit obligation (all vested)	\$ 1,463,948	\$ 1,565,673
Benefit costs	\$ 136,696	\$ 97,765
Employer contributions	306,176	130,017
Plan participant contributions	-	-
Benefits paid	35,733	35,733
Weighted-average assumptions as of December 31:		
Discount rate	6.00%	6.00%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

	<b>2008</b>
Amounts not recognized as components of net periodic pension cost in the statements of financial position:	
Unrecognized actuarial loss	\$ 899,590

It is anticipated that \$68,641 of the unrecognized actuarial loss will be recognized as a component of net periodic pension cost in 2009.

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:

2009	\$ 101,946
2010	35,287
2011	34,975
2012	34,797
2013	355,997
2014 to 2018	692,947
Total benefits expected to be paid	\$ 1,255,949

## NATIONAL CUTTING HORSE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **K. Benefit Plans – continued**

The Pension Plan's assets as of December 31, 2008, were invested 35% in equity securities, 43% in debt securities, and 22% in cash and cash equivalents. As of December 31, 2007, the Pension Plan's assets were invested 46% in equity securities, 44% in debt securities, and 10% in cash and cash equivalents.

The Association expects to contribute approximately \$72,000 to the Pension Plan in 2009.

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 the years ended December 31, 2008 and 2007, the Association made matching contributions of approximately \$37,000 and \$35,000, respectively. The Association made no discretionary contributions to the Deferred Plan during 2008 and 2007.

#### **L. 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, 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, 2008, approximately 51% of the Association's accounts receivable was comprised of outstanding amounts due from two sponsors, which were subsequently collected during 2009. Approximately 50% of the Association's accounts receivable at December 31, 2007, was comprised of outstanding amounts due from two sponsors, which were subsequently collected in 2008. 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 statements of activities and changes in net assets. There were direct costs of approximately \$11,000 during 2007 related to the youth fund-raiser. During 2008, there were no direct costs relating to this fund-raiser.

## 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 both 2008 and 2007, the Association disbursed approximately \$11,000 to the Foundation. Amounts included in accounts receivable from the Foundation as of December 31, 2007, approximated \$5,000, for net reimbursement of scholarships written on behalf of the Foundation. As of December 31, 2008, there were no amounts included in accounts receivable from 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, 2008 and 2007.

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, 2008 or 2007.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended December 31, 2008 and 2007, the Association received entry fees of approximately \$1,132,000 and \$1,160,000, respectively, from these affiliates. Fees received from affiliates for use of the Association's software during 2008 and 2007 was \$36,000 and \$37,000, respectively. Awards were paid during 2008 and 2007 to affiliates meeting the requirements of a competitive program. The amounts paid during each of the years ended December 31, 2008 and 2007 totaled approximately \$54,000. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During 2008 and 2007, show software costs of approximately \$52,000 and \$55,000, respectively, were reimbursed to affiliates.

#### **O. 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 6% of all entry fees to the Association. As of December 31, 2008 and 2007, approximately \$8,000 and \$4,000, 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.

## 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 which matured in May 2008. On April 1, 2008, the Association extended this lease for another five-year period, with annual rental payments of approximately \$5,000. Annual rental expense under this lease approximated \$5,000 and \$4,000 for the years ended December 31, 2008 and 2007, respectively. Minimum annual lease payments approximate \$5,000 for each of the years 2009 through 2012, and \$1,000 in 2013.

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 2008 and 2007 for the facilities rental under the lease was approximately \$346,000 and \$304,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for the years 2009 and 2010.

Prior to 2007, the Association entered into 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 2008 and 2007 for the facilities rental was \$40,000 each year. The minimum rental, on an annual basis, is approximately \$40,000 for 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 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, 2008.