

**NATIONAL CUTTING
HORSE ASSOCIATION**

FINANCIAL STATEMENTS

**Years Ended December 31, 2009 and 2008
with Report of Independent Auditors**

NATIONAL CUTTING HORSE ASSOCIATION

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
National Cutting Horse Association

We have audited the accompanying statements of financial position of the National Cutting Horse Association, a not-for-profit organization, as of December 31, 2009 and 2008, 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, 2009 and 2008 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 24, 2010

NATIONAL CUTTING HORSE ASSOCIATION
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2009	2008
Assets		
Cash and cash equivalents	\$ 1,824,020	\$ 1,601,841
Accounts receivable, net of allowance for doubtful accounts of \$13,613 and \$26,833, respectively	1,182,332	1,531,751
Accrued interest receivable	71,107	76,905
Investments	5,994,436	6,808,503
Inventories	8,985	10,127
Prepaid expenses and other assets	230,019	249,768
Property and equipment, net	2,294,465	2,283,645
Collections (Note F)	-	-
Total assets	\$ 11,605,364	\$ 12,562,540
Liabilities and Net Assets		
Liabilities:		
Bank overdraft	\$ 506,426	\$ 1,036,881
Accounts payable	871,361	876,601
Other accrued liabilities	383,886	82,977
Deferred revenue for future shows	1,303,507	1,827,686
Deferred membership dues	726,570	959,112
Deferred revenue, other	109,514	146,314
Youth scholarship awards	495,382	438,687
Liability for pension obligation	870,310	680,303
Total liabilities	5,266,956	6,048,561
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	5,250,503	5,441,357
Designated by the governing board for Youth funds	426,166	506,189
Total unrestricted	5,676,669	5,947,546
Temporarily restricted	661,739	566,433
Total net assets	6,338,408	6,513,979
Total liabilities and net assets	\$ 11,605,364	\$ 12,562,540

See accompanying notes to financial statements.

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

	Year Ended December 31,	
	2009	2008
	<hr/>	<hr/>
Unrestricted Net Assets		
Unrestricted support and income:		
Entry fees	\$ 8,020,770	\$ 8,537,664
Show fees	3,367,468	2,845,297
Advertising	1,748,312	1,998,958
Sponsorships	1,970,271	2,068,009
Stall rentals and practice pen	1,713,559	1,512,797
Affiliate income	1,208,778	1,168,515
Dues and fees	815,826	796,713
Purse sponsors	571,250	778,125
Horse sales and catalogues	650,000	675,000
Booth exhibit rental	454,404	524,719
Stallion subscription fees	539,053	539,429
Tickets	465,647	466,472
Expense allowance	302,894	293,651
Fund-raising events	145,189	193,067
Realized investment gains	107,510	244,673
Unrealized increases (decreases) in market value of investments	(84,900)	111,033
Interest and dividends	283,325	328,007
Other income	415,904	436,333
Total unrestricted support and income	<hr/> 22,695,260	<hr/> 23,518,462
Net assets released from restrictions	975,035	853,672
Total additions to unrestricted net assets	<hr/> 23,670,295	<hr/> 24,372,134
Unrestricted expenses and losses:		
Premiums, including sire awards, NCHA day, and affiliate challenge	11,017,487	11,558,861
Salaries and benefits	1,911,129	2,021,394
Cattle	2,078,239	2,007,348
Awards	1,348,692	1,232,106
Printing	612,183	730,824
Equipment and facilities rent	912,257	956,095
Outside labor, judges, and show staff	1,014,939	1,207,276
Sponsor cost	692,417	651,826
Project, promotional, and public relations	785,843	884,416

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

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

	Year Ended December 31,	
	2009	2008
Unrestricted expenses and losses - continued:		
Stall rentals and practice pen expenses	299,592	272,015
Advertising	210,172	164,230
Pension expense	145,750	116,766
Postage	258,942	268,890
Insurance	337,414	373,156
Taxes	177,642	186,676
Coliseum preparation	316,722	215,402
Professional fees and contract labor	599,146	716,472
Depreciation	149,594	138,850
(Gains) losses on disposals of property and equipment	(10,132)	522
Other expenses	921,630	1,010,356
Total unrestricted expenses and losses	23,779,658	24,713,481
Decrease in net assets before effects of defined benefit pension plan changes	(109,363)	(341,347)
Defined benefit pension plan changes other than net periodic pension cost	(161,514)	(56,413)
Net decrease in unrestricted net assets	(270,877)	(397,760)
Temporarily Restricted Net Assets		
Restricted contributions:		
State of Texas incentives	1,070,341	1,277,986
Net assets released from restrictions:		
Restrictions satisfied by payments	(975,035)	(853,672)
Net increase in temporarily restricted net assets	95,306	424,314
Net increase (decrease) in net assets	(175,571)	26,554
Net assets at beginning of year	6,513,979	6,487,425
Net assets at end of year	\$ 6,338,408	\$ 6,513,979

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2009	2008
	<u> </u>	<u> </u>
Operating Activities		
Net increase (decrease) in net assets	\$ (175,571)	\$ 26,554
Adjustments to reconcile net increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	149,594	138,850
(Gains) losses on disposals of property and equipment	(10,132)	522
Net realized and unrealized gains on investments	(22,610)	(355,706)
Restricted contributions	(1,070,341)	(1,277,986)
Effect of defined benefit pension plan changes	(161,514)	(56,413)
Changes in operating assets and liabilities:		
Accounts receivable	349,419	20,887
Accrued interest receivable	5,798	34,463
Inventories	1,142	(1,986)
Prepaid expenses and other assets	19,749	(57,644)
Accounts payable and other accrued liabilities	295,669	(425,147)
Deferred revenue for future shows	(524,179)	(139,048)
Deferred membership dues	(232,542)	(105,627)
Deferred revenue, other	(36,800)	(87,861)
Youth scholarship awards	56,695	55,870
Liability for pension obligation	351,521	(113,066)
Net cash used in operating activities	<u>(1,004,102)</u>	<u>(2,343,338)</u>
Investing Activities		
Purchases of investments	(1,787,018)	(6,499,368)
Proceeds from sales of investments	2,623,695	6,766,496
Proceeds from sales of property and equipment	10,750	-
Purchases of property and equipment	(161,032)	(88,315)
Net cash provided by investing activities	<u>686,395</u>	<u>178,813</u>
Financing Activities		
Bank overdraft	(530,455)	1,036,881
Restricted contributions	1,070,341	1,277,986
Net cash provided by financing activities	<u>539,886</u>	<u>2,314,867</u>
Net increase in cash and cash equivalents	222,179	150,342
Cash and cash equivalents at beginning of year	<u>1,601,841</u>	<u>1,451,499</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,824,020</u></u>	<u><u>\$ 1,601,841</u></u>

See accompanying notes to financial statements.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 958-205, *Not-For-Profit Entities: Presentation of Financial Statements*. Under FASB ASC Topic No. 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any permanently restricted net assets.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Contributions

The Association accounts for contributions in accordance with FASB ASC Topic No. 958-605, *Not-For-Profit Entities: Revenue Recognition*. In accordance with FASB ASC Topic No. 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under FASB ASC Topic No. 958-605, time or purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time or purpose restriction.

Cash and Cash Equivalents

The Association considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Association maintains deposits 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 FASB ASC Topic No. 958-320, *Not-for-Profit Entities: Investments—Debt and Equity Securities*. This statement requires investments with readily determinable fair values to be stated at fair value with realized and unrealized gains and losses included in the statements of activities and changes in net assets of the respective period.

Effective January 1, 2008, the Association adopted FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures*, 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. FASB ASC Topic No. 820 establishes a framework for measuring the fair value for certain assets and liabilities and it established a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic No. 820 are described below:

- 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.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Investments – continued

Level 2 Inputs to the valuation methodology include:

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

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

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

Accounts Receivable

Accounts receivable 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.

Inventories

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

Property and Equipment

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

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 Revenues and Deferred Membership Dues

Deferred revenue for membership dues and sponsorships represents money received in advance for future periods of activity. Deferred revenue for future shows represents entry fees received in the current period relating to future shows to be sponsored by the Association. 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 2009 and 2008, 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

Income Taxes – continued

In December 2008, the FASB issued new guidance included in FASB ASC Topic No. 740, *Income Taxes*, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain in tax positions taken or expected to be taken in income tax returns. Management of the Organization 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. In management's opinion, the Organization has not taken a tax position that, if challenged, would have a material effect on the financial statements for the year ended December 31, 2009, or during prior periods applicable under this guidance.

Donated Services

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

Impact of Recently Issued Accounting Pronouncements

In June 2009, the FASB issued a standard which established the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The FASB ASC was effective for financial statements issued for annual periods ending after September 15, 2009, and was adopted by the Organization in the year ended December 31, 2009. The adoption of this standard did not impact the Organization's financial statements.

C. Cash and Cash Equivalents

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

	<u>2009</u>	<u>2008</u>
Cash	\$ 3,273	\$ 300
Cash equivalents	<u>1,820,747</u>	<u>1,601,541</u>
Total cash and cash equivalents	<u>\$ 1,824,020</u>	<u>\$ 1,601,841</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:

	2009		2008	
	Cost	Market Value	Cost	Market Value
Certificates of deposit	\$ 3,778	\$ 3,778	\$ 3,731	\$ 3,731
Corporate bonds	2,550,930	2,643,525	1,285,815	1,288,602
Foreign bonds	1,036,015	1,084,610	514,160	528,045
Municipal bonds	512,545	514,785	512,545	511,575
Short term investments	-	-	249,000	249,000
U.S. government agency bonds	1,676,218	1,747,738	3,943,402	4,227,550
Total investments	\$ 5,779,486	\$ 5,994,436	\$ 6,508,653	\$ 6,808,503

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

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

	2009	2008
Interest and dividends	\$ 283,325	\$ 328,007
Net realized gains	107,510	244,673
Net unrealized gains (losses)	(84,900)	111,033
Investment management fees	(36,855)	(45,060)
Net investment income, including realized and unrealized gains and losses	\$ 269,080	\$ 638,653

E. Property and Equipment

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

	2009	2008
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,284,726	2,284,726
Automobiles and trailers	56,096	31,022
Office furniture and equipment	987,463	907,086
Total property and equipment	3,468,073	3,362,622
Less accumulated depreciation	1,173,608	1,078,977
Property and equipment, net	\$ 2,294,465	\$ 2,283,645

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, at December 31, were composed of the following:

	<u>2009</u>	<u>2008</u>
Membership dues	\$ 629,492	\$ 806,746
Non-pro dues	79,868	124,335
First-class dues	9,910	18,190
Other member dues	<u>7,300</u>	<u>9,841</u>
Total deferred membership dues	<u>\$ 726,570</u>	<u>\$ 959,112</u>

H. Unrestricted Net Assets – Board Designated

As of December 31, 2009 and 2008, approximately \$426,000 and \$506,000 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, 2009 and 2008, approximately \$662,000 and \$566,000, 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, 2009 and 2008.

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:

	2009	2008
Other income:		
Commissions, royalties and merchandise	\$ 309,513	\$ 218,799
Convention registration	17,556	28,145
Fines and protests	34,425	16,191
Horse records	12,380	12,960
Judges - seminars and fees	18,898	57,187
Miscellaneous income	4,782	92,851
Other show fees	18,350	10,200
Total other income	\$ 415,904	\$ 436,333
	2009	2008
Other expenses:		
Bad debts	\$ 13,328	\$ 13,050
Bank charges	164,953	178,746
Committee expenses	90,213	86,137
Convention expenses	100,457	111,440
Hospitality	35,624	48,623
Miscellaneous expenses	230,636	182,448
Office supplies	47,432	66,497
Repairs and maintenance	12,694	13,005
Travel	85,318	88,237
Utilities	102,894	106,973
Vehicle allowance	38,081	115,200
Total other expenses	\$ 921,630	\$ 1,010,356

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:

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (continued)

K. Benefit Plans – continued

	<u>2009</u>	<u>2008</u>
Projected benefit obligation at December 31	\$ 1,871,594	\$ 1,520,924
Fair value of plan assets at December 31	<u>1,001,284</u>	<u>840,621</u>
Funded status	<u>\$ (870,310)</u>	<u>\$ (680,303)</u>
Prepaid benefit costs recognized in the statements of financial position	<u>\$ 189,309</u>	<u>\$ 219,287</u>
Accumulated benefit obligation (all vested)	<u>\$ 1,821,264</u>	<u>\$ 1,463,948</u>
Net periodic pension costs	\$ 101,978	\$ 73,122
Employer contributions	72,000	306,176
Plan participant contributions	-	-
Benefits paid	74,144	35,733
Weighted-average assumptions as of December 31:		
Discount rate	6.75%	6.00%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

	<u>2009</u>
Amounts not recognized as components of net periodic pension cost in the statements of financial position:	
Unrecognized actuarial loss	\$ 1,059,619

It is anticipated that \$91,549 of the unrecognized actuarial loss will be recognized as a component of net periodic pension cost in 2010.

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:

2010	\$ 53,000
2011	50,000
2012	147,000
2013	223,000
2014	97,000
2015 to 2019	<u>890,000</u>
Total benefits expected to be paid	<u>\$1,460,000</u>

The Pension Plan's assets as of December 31, 2009, were invested 40% in equity securities, 22% in debt securities, 26% in mutual funds and 12% in cash and cash equivalents. As of December 31, 2008, the Pension Plan's assets were invested 35% in equity securities, 43% in debt securities, and 22% in cash and cash equivalents.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

K. Benefit Plans – continued

The Association expects to contribute approximately \$89,000 to the Pension Plan in 2010.

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, 2009 and 2008, the Association made matching contributions of approximately \$44,000 and \$37,000, respectively. The Association made no discretionary contributions to the Deferred Plan during 2009 and 2008.

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, 2009, approximately 52% of the Association's accounts receivable was comprised of outstanding amounts due from two sponsors, which were subsequently collected during 2010. Approximately 51% of the Association's accounts receivable at December 31, 2008, was comprised of outstanding amounts due from two sponsors, which were subsequently collected in 2009. 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 no direct costs relating to fund-raising events in 2009 or 2008.

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 2009 and 2008, the Association disbursed approximately \$20,000 and \$11,000, respectively to the Foundation. The Association also has a payable of approximately \$2,000 to the Foundation at December 31, 2009 that was disbursed in 2010. There was no such payable at December 31, 2008. In addition, the Association's accounting department performs accounting functions for the Foundation at no cost.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (*continued*)

N. Related Party Transactions – continued

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, 2009 and 2008.

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, 2009 or 2008.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended December 31, 2009 and 2008, the Association received entry fees of approximately \$1,171,000 and \$1,132,000, respectively, from these affiliates. Fees received from affiliates for use of the Association's software during 2009 and 2008 was \$38,000 and \$36,000, respectively. Awards were paid during 2009 and 2008 to affiliates meeting the requirements of a competitive program. The amounts paid during each of the years ended December 31, 2009 and 2008 totaled approximately \$54,000. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During 2009 and 2008, show software costs of approximately \$55,000 and \$52,000, 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, 2009 and 2008, approximately \$16,000 and \$8,000, respectively, was still receivable from the contestants. In the opinion of management, the amount of ultimate liability with respect to these entry fees will not materially affect the financial position or operations of the Association.

The Association leases certain office equipment 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 for each of the years ended December 31, 2009 and 2008. Minimum annual lease payments approximate \$5,000 for each of the years 2010 through 2012, and \$1,000 in 2013.

NATIONAL CUTTING HORSE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS *(continued)*

O. Commitments and Contingencies – continued

The Association leases facilities for three different shows to be held each year under a five-year operating lease maturing in May 2011. 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 2009 and 2008 for the facilities rental under the lease was approximately \$344,000 and \$346,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for the years 2010 and 2011.

Prior to 2008, 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 2009 and 2008 for the facilities rental was \$40,000 each year. The minimum rental, on an annual basis, is approximately \$40,000 for 2010 and 2011.

On June 27, 2006, the Association entered an agreement with the American Quarter Horse Association (the "AQHA"), a non-profit corporation, to undertake the development of software to capture data and create reports which will contain Association performance records, data and information incorporated with AQHA's pedigree records. Revenues from the sale of the reports and costs of software development will be shared equally by the two organizations. The agreement shall be in effect for a period of five years. The agreement limits the Association's share of costs of development to \$75,000 and such costs were incurred in 2006. The Association's share of revenue from the sale of reports will be retained by the AQHA until the revenues exceed the Association's share of costs incurred. No revenue from the sale of reports has been generated to date through December 31, 2009.

P. Subsequent Events

In preparing the accompanying financial statements, management of the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through June 24, 2010, the date the financial statements were available for issuance.

On January 27, 2010, the Organization entered into a bartering arrangement with an event facility in which the Organization will be provided the use of facilities, stalls, services and equipment with an estimated value of \$126,000 per year at no cost. In exchange, the Organization will provide the facility with sponsorship benefits at a NCHA Official Corporate Partner Level which includes advertisement in programs, annuals, posters, public announcements and wall signage. The value of the sponsorship recognition to be provided is to equal the value of the facilities being provided to the Organization at no cost. This agreement is in effect from April 2010 through May 2014.