

**NATIONAL CUTTING  
HORSE ASSOCIATION**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2016 and  
Nine Months Ended September 30, 2015  
with Report of Independent Auditors**

**NATIONAL CUTTING  
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**FINANCIAL STATEMENTS**

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Nine Months Ended September 30, 2015**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the  
National Cutting Horse Association

We have audited the accompanying financial statements of the National Cutting Horse Association, a not-for-profit organization, which comprise the statements of financial position as of September 30, 2016 and 2015, respectively, and the related statements of activities and changes in net assets and cash flows for the twelve-month and nine-month periods then ended, respectively, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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 September 30, 2016 and 2015, respectively, and the results of its activities and changes in its net assets and its cash flows for the twelve-month and nine-month periods then ended, respectively, in conformity with accounting principles generally accepted in the United States of America.

## **Report of Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the supplemental schedules on pages 22-27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Whitley Penn LLP*

Fort Worth, Texas  
January 24, 2017

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

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,892,153	\$ 1,936,879
Accounts receivable, net of allowance for doubtful accounts of \$11,546 and \$12,617, respectively	271,778	164,546
Accounts receivable - State of Texas incentives	1,794,504	2,955,496
Investments	6,434,814	5,585,883
Prepaid expenses and inventories	438,725	425,509
Property and equipment, net	<u>3,844,172</u>	<u>3,005,460</u>
 Total assets	 <u>\$ 14,676,146</u>	 <u>\$ 14,073,773</u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 269,965	\$ 472,521
Other accrued liabilities	241,320	325,570
Deferred revenue for future shows	3,249,083	4,023,676
Deferred revenue for stallion/ foal fees	2,169,782	1,963,054
Deferred membership dues	514,320	514,906
Deferred revenue, other	154,021	70,884
Youth scholarships	<u>960,260</u>	<u>896,172</u>
Total liabilities	7,558,751	8,266,783
 Net assets:		
Unrestricted	5,259,325	3,985,487
Designated for youth activities	332,878	296,311
Temporarily restricted for Triple Crown events	<u>1,525,192</u>	<u>1,525,192</u>
Total net assets	<u>7,117,395</u>	<u>5,806,990</u>
 Total liabilities and net assets	 <u>\$ 14,676,146</u>	 <u>\$ 14,073,773</u>

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**

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

	Year Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Revenue	Expense	Increase (Decrease)	Revenue	Expense	Increase (Decrease)
<b>Unrestricted Net Assets</b>						
<b>Revenue Producing Operating Activities</b>						
Shows and related activities	\$ 19,570,255	\$ 17,275,492	\$ 2,294,763	\$ 11,897,128	\$ 11,272,847	\$ 624,281
Affiliate and independent producers activities	1,437,508	707,492	730,016	1,214,246	527,728	686,518
Promotion and development	3,243,793	2,840,096	403,697	1,798,473	1,668,746	129,727
Member services	781,250	176,319	604,931	711,358	142,047	569,311
Total revenue producing activities	<u>25,032,806</u>	<u>20,999,399</u>	<u>4,033,407</u>	<u>15,621,205</u>	<u>13,611,368</u>	<u>2,009,837</u>
<b>General and Administrative Operating Costs</b>						
Salary, benefits and related taxes (unallocated)	-	1,327,863	(1,327,863)	-	885,354	(885,354)
Real estate taxes	-	40,259	(40,259)	-	41,208	(41,208)
Professional fees	-	442,623	(442,623)	-	304,788	(304,788)
Depreciation and amortization	-	120,110	(120,110)	-	93,466	(93,466)
Other revenue and general and administrative costs	124,609	1,120,220	(995,611)	83,460	836,136	(752,676)
Total general and administrative costs	<u>124,609</u>	<u>3,051,075</u>	<u>(2,926,466)</u>	<u>83,460</u>	<u>2,160,952</u>	<u>(2,077,492)</u>
Increase (decrease) from operations	<u>25,157,415</u>	<u>24,050,474</u>	<u>1,106,941</u>	<u>15,704,665</u>	<u>15,772,320</u>	<u>(67,655)</u>
<b>Non-operating Activities</b>						
Investment activity	399,708	124,137	275,571	110,719	43,487	67,232
Stallion/Foal program refund	-	-	-	-	155,950	(155,950)
Website development	-	72,107	(72,107)	-	111,481	(111,481)
Total non-operating activities	<u>399,708</u>	<u>196,244</u>	<u>203,464</u>	<u>110,719</u>	<u>310,918</u>	<u>(200,199)</u>
Increase (decrease) in unrestricted net assets	<u>25,557,123</u>	<u>24,246,718</u>	<u>1,310,405</u>	<u>15,815,384</u>	<u>16,083,238</u>	<u>(267,854)</u>
<b>Temporarily Restricted Net Assets</b>						
State of Texas incentives	-	-	-	1,337,157	1,012,686	324,471
Increase (decrease) in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,337,157</u>	<u>1,012,686</u>	<u>324,471</u>
Total net increase in net assets	<u>\$ 25,557,123</u>	<u>\$ 24,246,718</u>	<u>1,310,405</u>	<u>\$ 17,152,541</u>	<u>\$ 17,095,924</u>	<u>56,617</u>
Net assets at beginning of the year			<u>5,806,990</u>			<u>5,750,373</u>
Net assets at the end of the year			<u>\$ 7,117,395</u>			<u>\$ 5,806,990</u>

See accompanying notes to financial statements.

**NATIONAL CUTTING HORSE ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

	<u>Year Ended</u> <u>September 30, 2016</u>	<u>Nine Months Ended</u> <u>September 30, 2015</u>
<b>Operating Activities</b>		
Net increase in net assets	\$ 1,310,405	\$ 56,617
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,110	93,466
Loss on disposal of property and equipment	16,237	-
Provision for bad debt	14,180	7,230
Net realized and unrealized (gains) losses on investments	(126,831)	55,616
Restricted contributions - State of Texas incentives	-	(1,337,157)
Changes in operating assets and liabilities:		
Accounts receivable	(121,412)	292,703
Accounts receivable - State of Texas incentives	1,160,992	(1,337,157)
Prepaid expenses and inventories	(13,216)	(255,803)
Accounts payable and other accrued liabilities	(286,806)	(502,395)
Deferred revenue for future shows	(774,593)	3,542,469
Deferred revenue for stallion / foal fees	206,728	121,750
Deferred membership dues	(586)	(296,220)
Deferred revenue, other	83,137	42,134
Youth scholarship awards	64,088	34,752
Net cash provided by operating activities	1,652,433	518,005
<b>Investing Activities</b>		
Proceeds from sale of investments	12,460,571	250,000
Purchases of investments	(13,182,671)	(1,665,013)
Purchases of property and equipment	(975,059)	(681,187)
Net cash used in investing activities	(1,697,159)	(2,096,200)
<b>Financing Activities</b>		
Restricted contributions - State of Texas incentives	-	1,337,157
Net cash provided by financing activities	-	1,337,157
Net decrease in cash and cash equivalents	(44,726)	(241,038)
Cash and cash equivalents at beginning of period	1,936,879	2,177,917
Cash and cash equivalents at end of period	\$ 1,892,153	\$ 1,936,879

See accompanying notes to financial statements.

# NATIONAL CUTTING HORSE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

### A. Nature of Activities

The National Cutting Horse Association (the “Association”) is a not-for-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 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 (“GAAP”), which requires the Association 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.

#### Use of Estimates

The preparation of financial statements in conformity with 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.

#### Fiscal Year Change

Effective October 1, 2015, the Association changed from a calendar year end of December 31 to a fiscal year end of September 30. A nine-month fiscal transition period from January 1, 2015 to September 30, 2015 preceded the start of the new fiscal year cycle.

#### Contributions

The Association recognizes contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. 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. The Association maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Association has not experienced any losses related to amounts in excess of FDIC limits.

##### **Investments**

The Association follows the provisions of GAAP, which 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.

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

**Property and Equipment**

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

The Association follows the provisions of GAAP for the capitalization of the costs incurred for computer software developed or obtained for internal use. The Association expenses all costs incurred during the preliminary project stage of its development, and capitalizes the costs incurred during the application development stage. Costs incurred relating to upgrades and enhancements to the software are capitalized if it is determined that these upgrades or enhancements add additional functionality to the software. Costs incurred to improve and support products after they become available are charged to expense as incurred.

Depreciation and amortization are 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
Software	3 years

Donations of property and equipment are recorded as support at their estimated fair value at the time of receipt. Such donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent 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.

## NATIONAL CUTTING HORSE ASSOCIATION

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

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

##### **Collections**

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

##### **Deferred Revenues and Deferred Membership Dues**

Deferred revenue for membership dues and sponsorships represents money received in advance for future periods of activity. Deferred revenue for future shows represents entry fees received in the current period relating to future shows to be sponsored by the Association. The Association recognizes the deferred revenue upon completion of the respective show or in accordance with the terms of the sponsorship agreement. It is the Association's policy to amortize lifetime membership dues over seven to fifteen years. Non-pro dues, first-class postage dues, and trainer fee dues received prior to year-end are generally amortized over one year.

##### **Youth Scholarships**

The liability for youth scholarship awards represents scholarships awarded that will be paid when the awardees enroll in college. If an awardee reaches age 25 and has not utilized the full amounts of the scholarship, the unused amounts are returned to the amount designated for youth funds, to be used to award additional scholarships in the future.

##### **Advertising**

Advertising costs are expensed as incurred.

##### **Income Taxes**

The Association is a not-for-profit organization as defined in Section 501(c)(5) of the Internal Revenue Code and, accordingly, its activities are generally exempt from federal income taxes. Advertising revenue generated from *The Cutting Horse Chatter* is however considered unrelated business income and is reported as such for tax-reporting purposes. During the year ended September 30, 2016 and the nine-months ended September 30, 2015, net taxable unrelated business income was not significant and therefore, no provision for income taxes was recorded in the accompanying financial statements.

No tax returns are currently under examination by any tax authorities. As of September 30, 2016, the Association has not incurred any penalties or interest under GAAP.

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Donated Services**

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

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**C. Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following:

	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Cash	\$ 1,360,066	\$ 1,693,361
Cash equivalents	532,087	243,518
Total cash and cash equivalents	<u>\$ 1,892,153</u>	<u>\$ 1,936,879</u>

As of September 30, 2016 and 2015, respectively, cash equivalents were held by the Association's third-party investment advisor and were invested in short-term bond funds.

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**D. Accounts Receivable – State of Texas Incentives**

The detail of the certified amounts recorded in accounts receivable – state of Texas incentives as of:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
2014 Derby (Summer Spectacular)	\$ -	\$ 762,130
2014 Futurity	-	856,209
2015 Super Stakes	-	922,242
2015 Derby (Summer Spectacular)	-	414,915
2015 Futurity	845,910	-
2016 Super Stakes	529,422	-
2016 Derby (Summer Spectacular)	419,172	-
Total accounts receivable – state of Texas incentives	<u>\$ 1,794,504</u>	<u>\$ 2,955,496</u>

**E. Investments**

The cost and market value of investments are as follows:

	<u>September 30, 2016</u>		<u>September 30, 2015</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 3,966,419	\$ 4,043,435	\$ -	\$ -
Bond funds	1,515,846	1,536,872	-	-
Corporate bonds	716,149	745,014	4,422,576	4,344,479
Foreign bonds	107,674	109,493	945,402	937,198
Municipal bonds	-	-	314,815	304,206
Total investments	<u>\$ 6,306,088</u>	<u>\$ 6,434,814</u>	<u>\$ 5,682,793</u>	<u>\$ 5,585,883</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Investments – continued**

The following table details the fair value hierarchy for investments measured at fair value, on a recurring basis, at September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds:			
Bond	\$ 2,577,220	\$ -	\$ 2,577,220
Growth	311,332	-	311,332
Equity	308,203	-	308,203
Mid-cap	231,855	-	231,855
International	211,080	-	211,080
Small cap	119,732	-	119,732
Credit	113,946	-	113,946
Emerging markets	94,837	-	94,837
Real estate	75,230	-	75,230
Bond funds	-	1,536,872	1,536,872
Corporate bonds	-	745,014	745,014
Foreign bonds	-	109,493	109,493
	<u>\$ 4,043,435</u>	<u>\$ 2,391,379</u>	<u>\$ 6,434,814</u>

The following table details the fair value hierarchy for investments measured at fair value, on a recurring basis, at September 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 4,344,479	\$ 4,344,479
Foreign bonds	-	937,198	937,198
Municipal bonds	-	304,206	304,206
	<u>\$ -</u>	<u>\$ 5,585,883</u>	<u>\$ 5,585,883</u>

The market value of the Association’s mutual funds are considered Level 1 as the investments have readily available quoted prices in active markets. The market value of the Association’s short-term bond funds and various fixed income securities are considered Level 2, as the investments represent quoted prices for identical or similar assets or liabilities in inactive markets.

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Investments – continued**

Investment activity in the accompanying statements of activities and changes in net assets consisted of the following:

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
Interest and dividend income	\$ 174,072	\$ 144,161
Net realized investment losses	(98,805)	(22,174)
Net unrealized gains (losses)	225,636	(33,442)
Investment management fees	(25,332)	(21,313)
Total investment activity	<u>\$ 275,571</u>	<u>\$ 67,232</u>

**F. Prepaid Expenses and Inventories**

Prepaid expenses and inventories consisted of the following:

	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Prepaid expenses	\$ 425,046	\$ 403,018
Inventories	13,679	22,491
Total prepaid expenses and inventories	<u>\$ 438,725</u>	<u>\$ 425,509</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Property and Equipment**

Property and equipment consisted of the following:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Land	\$ 139,788	\$ 139,788
Buildings and improvements	2,318,765	2,304,318
Automobiles and trailers	48,488	48,488
Office furniture and equipment	915,342	910,627
Software	2,176,159	1,255,261
Total property and equipment	<u>5,598,542</u>	<u>4,658,482</u>
Less accumulated depreciation	<u>1,754,370</u>	<u>1,653,022</u>
Property and equipment, net	<u>\$ 3,844,172</u>	<u>\$ 3,005,460</u>

At September 30, 2016, the Association capitalized in-house software development costs of \$2,176,159 which are currently still in development and therefore, no amortization of these costs was incurred during the year ended September 30, 2016. These systems are expected to be placed in service during 2017 at which time amortization will commence.

**H. Unrestricted Net Assets – Designated for Youth Funds**

As of September 30, 2016 and 2015, respectively, approximately \$333,000 and \$296,000 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 – Triple Crown Events**

During the year ended September 30, 2016 the Texas Major Events program moved from the Comptroller’s Office to the Governor’s Office. This prompted the change in the Association’s participation in the Major Events Trust Fund to the Major Events Reimbursement Program (“MERP”). The MERP program is designed to provide reimbursement for specific expenses incurred in the production of the Triple Crown events.



**NATIONAL CUTTING HORSE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**I. Temporarily Restricted Net Assets – Triple Crown Events – continued**

For the nine months ended September 30, 2015 and before, based on approved applications, the state of Texas provided incentives to the city of Fort Worth for Association events held in the Fort Worth area. The city of Fort Worth, in turn, provides incentives to the Association that are restricted for the purpose of enhancing Association shows that qualify for the state incentives. The temporarily restricted amounts were held in investments at September 30, 2016 and in accounts receivable – state of Texas incentives at September 30, 2015. The following represents the incentives awarded by the state of Texas and amounts released from restriction as approved by the Executive Committee:

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
Beginning balance	\$ 1,525,192	\$ 1,200,721
<b>Super Stakes:</b>		
State of Texas incentive contribution	-	922,242
Net assets released from restrictions	-	(510,900)
<b>Derby (Summer Spectacular):</b>		
State of Texas incentive contribution	-	414,915
Net assets released from restrictions	-	(501,786)
<b>Futurity:</b>		
State of Texas incentive contribution	-	-
Net assets released from restrictions	-	-
Ending balance	<u>\$ 1,525,192</u>	<u>\$ 1,525,192</u>

**J. Benefit Plans**

The Association sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. Beginning in January 2016, the Association matches 100% of employee contributions up to 3% of the employee's eligible compensation plus a 50% matching contribution on any additional salary deferrals above 3% up to 5% of eligible compensation. Prior to 2016, the Association would match 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 year ended September 30, 2016 and nine months ended September 30, 2015, the Association made matching contributions of approximately \$69,000 and \$35,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the year ended September 30, 2016 and nine months ended September 30, 2015.

## NATIONAL CUTTING HORSE ASSOCIATION

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

#### **K. Stallion/ Foal Fees**

In 2011, a Stallion/ Foal fees incentive program replaced the previous Stallion Subscription program for the Super Stakes. Stallions are required to subscribe the year before the breeding season, which is six years prior to the first Super Stakes that the resulting foals would be eligible to compete. The Stallion fee chart is below:

October 1 <sup>st</sup> prior to Breeding Year	\$	2,600
Prior to December 31 <sup>st</sup> of Breeding Year		3,600
Prior to December 31 <sup>st</sup> of the Foals Weanling Year		4,600
Prior to December 31 <sup>st</sup> of the Foals Yearling Year		6,000
Prior to December 31 <sup>st</sup> of the Foals 2 Year Old Year		7,500
Prior to December 31 <sup>st</sup> of the Foals 3 Year Old Year		10,000

\*All stallion subscription fees include a \$100 stallion insurance fee

Foals are also required to be nominated in the new program in order to compete in the Super Stakes. The foal nomination fee chart is below:

Foaling year (by deadline)	\$	200
Weanling year (by deadline)		1,250
2 year old (by deadline)		7,500
3 year old and up		10,000

Stallion subscription fees and foal nomination fees are held as deferred revenue and will be disbursed into the first show year of eligibility for the foals at age 4.

During the interim three years between the close of the old program in 2011 and the initial foal disbursements in 2015, \$500,000 per year (for a total of \$1,500,000 over the three years) was advanced to the Super Stakes from general fund to maintain added money in the show. Those funds will be reimbursed from the program to the general fund over a period of six years (\$250,000 per year), beginning in 2017 when the initial Stallion Fee funds are disbursed.

**NATIONAL CUTTING HORSE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**K. Stallion/ Foal Fees – continued**

The following table shows the detail of the funds at:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Stallion fees collected for the 2017 Super Stakes	\$ 431,700	\$ 465,548
Stallion fees collected for the 2018 Super Stakes	498,450	511,746
Stallion fees collected for the 2019 Super Stakes	449,800	379,400
Stallion fees collected for the 2020 Super Stakes	330,400	325,503
Stallion fees collected for the 2021 Super Stakes	329,897	129,997
Stallion fees collected for the 2022 Super Stakes	<u>140,000</u>	<u>-</u>
Total stallion fees collected	2,180,247	1,812,194
Total advances to the Super Stakes	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Net stallion fees	<u>680,247</u>	<u>312,194</u>
Foal fees collected for the 2016 Super Stakes	-	599,800
Foal fees collected for the 2017 Super Stakes	486,925	541,650
Foal fees collected for the 2018 Super Stakes	498,810	483,010
Foal fees collected for the 2019 Super Stakes	473,800	26,400
Foal fees collected for the 2020 Super Stakes	<u>30,000</u>	<u>-</u>
Total foal fees collected	<u>1,489,535</u>	<u>1,650,860</u>
Deferred revenue for stallion/ foal fees	<u>\$ 2,169,782</u>	<u>\$ 1,963,054</u>

At September 30, 2016, total advances from the general fund to the Super Stakes were as follows:

Advance to the 2012 show	\$ 500,000
Advance to the 2013 show	500,000
Advance to the 2014 show	<u>500,000</u>
Total advances to the Super Stakes	<u>\$ 1,500,000</u>

**L. Concentrations**

Entry fees, purse sponsorships, and other monies collected in advance of future shows are invested in mutual funds, short-term bond funds, and various fixed income securities, which consist of liquid assets in various financial institutions.

## NATIONAL CUTTING HORSE ASSOCIATION

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

#### **L. Concentrations – continued**

At September 30, 2016 and 2015, approximately 87% and 97%, respectively, of the Association's accounts receivable was comprised of outstanding amounts due from the city of Fort Worth for the state of Texas incentives. 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 promotion and development revenues in the accompanying statements of activities and changes in net assets which approximated \$250,000 and \$124,000 during the year ended September 30, 2016 and nine months ended September 30, 2015, respectively. There was approximately \$133,000 of direct costs related to fund-raising events during the year ended September 30, 2016. There were no direct costs relating to fund-raising events in 2015.

#### **N. Unrestricted Non-Operating Activities**

The Association incurred expenses of approximately \$72,000 and \$111,000, respectively, for the year ended September 30, 2016 and nine months ended September 30, 2015 for planning costs associated with developing a new website. These expenses have been recorded as unrestricted non-operating activities as these activities do not fall with the Association's normal operations as discussed in Note A.

#### **O. Related Party Transactions**

NCHA Charities Foundation (the "Foundation") is a 501(c)(3) charitable organization that supports and benefits the Association by, among other things, maintaining scholarship funds, providing crisis funding in accordance with guidelines adopted by the board of directors of the Foundation, developing educational and animal welfare programs and otherwise assisting with the charitable purposes of the Association. At September 30, 2016 and 2015, respectively, the Association had a receivable of approximately \$1,600 and \$30,000, respectively, due from the Foundation relating to reimbursement of costs, which is included in accounts receivable in the accompanying statements of financial position. 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 \$27,000 and \$21,000 for the year ended September 30, 2016 and nine months ended September 30, 2015, respectively.

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the year ended September 30, 2016 and nine months ended September 30, 2015, respectively, the Association received entry fees of approximately \$1,343,000 and \$1,122,000, respectively, from these affiliates.

## NATIONAL CUTTING HORSE ASSOCIATION

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

#### **O. Related Party Transactions – continued**

Fees received from affiliates for use of the Association's show production software during year ended September 30, 2016 and nine months ended September 30, 2015, were approximately \$36,000 and \$33,000, respectively. Supplemental show software costs were reimbursed to affiliates meeting the requirements for partial reimbursement. During the year ended September 30, 2016 and nine months ended September 30, 2015, show software costs of approximately \$57,000 and \$48,000, respectively, were reimbursed to affiliates. The Association pays insurance costs on behalf of the affiliates which totaled approximately \$27,500 and \$6,800 for the year ended September 30, 2016 and the nine months ended September 30, 2015, respectively.

The Association established the NCHA Texas Events PAC entity (the "PAC") in 2008 to promote and celebrate the cutting horse by making an effort to impact legislation that will positively affect the equine industry. At September 30, 2016 and September 30, 2015, the Association had a payable of approximately \$41,000 and \$34,000, respectively, due to the PAC relating to donations collected from NCHA members on behalf of the PAC.

#### **P. Commitments and Contingencies**

From time to time, the Association is involved in various lawsuits and claims arising in the normal course of business. In management's opinion, the ultimate outcome of these items will not have a material adverse effect on the Association's financial position or results of operations.

The Association guarantees all entry fees paid by contestants to show management (affiliates) representing cutting horse contests. During the year ended September 30, 2016 and nine months ended September 30, 2015, respectively, the contestants must be members of the Association in good standing and the show must remit 8% of all entry fees to the Association. At September 30, 2016 and 2015, approximately \$400 and \$2,000, respectively, was a 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 results of operations of the Association.

The Association leases certain office equipment, with annual rental payments of approximately \$19,000, which matures in January through March 2018. Rental expense under this lease approximated \$19,000 and \$14,000 for the year ended September 30, 2016 and nine months ended September 30, 2015, respectively. Minimum annual lease payments approximate \$19,000 for 2017 and \$7,000 for 2018.

The Association leases facilities from the city of Fort Worth under a five-year operating lease, which initially matured in May 2011, for the purpose of holding the Super Stakes, Summer Spectacular, World Championship Futurity, and World Finals events each year. On January 1 of each year beginning in 2008, one additional year will be automatically added to the end of the initial five-year term of this lease agreement unless written notice is given by either party prior to January 1. At September 30, 2016, the Association is obligated to continue under this lease until December 2018. The amount paid during the year ended September 30, 2016 and nine months ended September 30, 2015 for the facilities rental under the lease was approximately \$379,000 and \$199,000, respectively. Minimum rentals, on an annual basis, are approximately \$304,000 for 2017 through 2018 and \$134,000 for 2019.

## NATIONAL CUTTING HORSE ASSOCIATION

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

#### **P. Commitments and Contingencies – continued**

The Association entered into an operating lease for the rental of facilities in Jackson, Mississippi for the annual Eastern National Championships event which matured in March of 2016. The amounts paid during the year ended September 30, 2016 and nine months ended September 30, 2015, respectively for the facilities rental was \$40,000 each year.

The Association entered into an operating lease for the facilities in Denver, Colorado for the annual Western National Championships in 2016. The amount paid during the year ended September 30, 2016 was \$25,000. The Association entered into an extension agreement for the 2017 and 2018 events. The minimum annual lease payments are approximately \$30,000 for 2017 and 2018. The Association entered into an operating lease for the facilities in Scottsdale, Arizona for the Western Finals in 2017. The agreement matures in May 2018 with a one year extension. The minimum annual lease payments are approximately \$35,000 for 2017 through 2019.

During 2011, the Association entered into an agreement with Western Bloodstock, Ltd (“WB”), was extended until January 1, 2020. WB will be the exclusive auction provider for all horse sales during events produced by the Association. In connection with the agreement, WB pays the Association the greater of 4% of annual gross sales, as defined by the agreement, or \$500,000, and also reimburses the Association for various expenses incurred in connection with the sale of horses. During the year ended September 30, 2016, the Association received approximately \$698,000 from WB and accrued for approximately \$68,000 in connection with the horse sales and these amounts are recorded in horse auction royalties in the accompany statements of activities and changes in net assets. The royalties are received at the conclusion of the calendar year. There was no such amount received during the nine-months ended September 30, 2015.

#### **Q. Subsequent Events**

In preparing the accompanying financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through January 24, 2017, the date the financial statements were available for issuance.

**SUPPLEMENTAL INFORMATION**

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE I -  
SCHEDULES OF PROFESSIONAL FEES**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
Actuarial Services	\$ -	\$ 6,171
Attorneys	140,100	112,500
Auditing, tax, and ballot counting services	93,651	62,767
Consulting - economic impact and review	35,000	27,500
Consulting - legislative	150,000	67,979
Consulting - marketing	14,734	2,031
Consulting - information technology	-	2,190
Consulting - other	9,138	23,650
Total professional fees	<u>\$ 442,623</u>	<u>\$ 304,788</u>



**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE II -  
SCHEDULES OF SHOWS AND RELATED ACTIVITIES REVENUES AND EXPENSES**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
	<u>                    </u>	<u>                    </u>
Entry fees	\$ 8,506,155	\$ 4,831,841
Show fees	3,119,702	3,068,521
Stalls and practice pens	1,857,962	1,224,868
State of Texas incentive	1,794,504	1,012,686
Show Sponsors	1,373,940	171,063
Horse auction royalties	765,550	-
Ticket sales	493,568	50,265
Tradeshow booth rental revenue	331,646	134,839
Addition incentive revenue	318,142	279,524
Miscellaneous revenue	178,586	502,521
Slot cutting	830,500	621,000
	<u>                    </u>	<u>                    </u>
Total shows and related activities revenues	19,570,255	11,897,128
Premiums paid	(9,126,374)	(5,965,775)
Cattle and related expenses	(2,049,207)	(1,469,936)
Awards	(1,319,701)	(862,041)
Equipment and facilities rental	(1,186,165)	(669,339)
Judges and show labor	(834,521)	(548,498)
Slot cutting	(778,196)	(586,654)
Salaries, contract labor, benefits and related taxes	(533,900)	(367,321)
Dirt and related expenses	(391,207)	(214,072)
Stall rental and practice pen expenses	(209,220)	(136,984)
Advertising expenses	(133,215)	(89,687)
Drug testing expenses	(103,146)	(70,479)
Coliseum preparation	(101,838)	(53,318)
Security and paramedics	(100,078)	(66,326)
Webcast expenses	(89,414)	(49,732)
Other show related expenses	(319,310)	(122,685)
	<u>                    </u>	<u>                    </u>
Total shows and related activities expenses	(17,275,492)	(11,272,847)
Net show and related activities revenues and expenses	<u><u>\$ 2,294,763</u></u>	<u><u>\$ 624,281</u></u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE III -  
SCHEDULES OF AFFILIATE AND INDEPENDENT PRODUCERS  
REVENUES AND EXPENSES**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
	<u>                    </u>	<u>                    </u>
Affiliate show fees	\$ 1,341,690	\$ 1,121,690
Sponsorships	37,520	38,423
Affiliate software revenue	35,625	33,218
Senior world tour fees	<u>22,673</u>	<u>20,915</u>
Total affiliate and independent producers revenues	1,437,508	1,214,246
Awards	(262,726)	(133,430)
Salaries, benefits and other expenses	(192,904)	(150,042)
Judges and monitors	(129,123)	(98,395)
NCHA weekend	(65,964)	(98,311)
Affiliate software expense	<u>(56,775)</u>	<u>(47,550)</u>
Total affiliate and independent producers expenses	<u>(707,492)</u>	<u>(527,728)</u>
Net affiliate and independent producers revenues and expenses	<u><u>\$ 730,016</u></u>	<u><u>\$ 686,518</u></u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE IV -  
SCHEDULES OF PROMOTION AND DEVELOPMENT REVENUES AND EXPENSES**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
	<u>                    </u>	<u>                    </u>
Charter advertisers and sponsors	\$ 1,364,525	\$ 985,751
Sponsorships	1,302,563	545,659
Youth fundraising and other activities revenue	400,249	153,750
Miscellaneous revenue	152,821	86,483
Special projects	23,635	26,830
	<u>                    </u>	<u>                    </u>
Total promotion and development revenues	3,243,793	1,798,473
Advertising and promotion expenses	(892,106)	(577,789)
Salaries, benefits and taxes	(691,779)	(549,140)
Postage and printing	(413,810)	(276,098)
Special projects	(340,953)	(69,125)
Youth activities expense	(305,058)	(46,099)
Contract labor	(58,660)	(60,029)
Youth awards	(31,108)	(32,748)
Other expenses	(106,622)	(57,718)
	<u>                    </u>	<u>                    </u>
Total promotion and development expenses	(2,840,096)	(1,668,746)
Net promotion and development revenues and expenses	<u>          \$ 403,697          </u>	<u>          \$ 129,727          </u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE V -  
SCHEDULES OF MEMBERSHIP SERVICES REVENUE AND EXPENSES**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
Membership dues revenue	\$ 781,250	\$ 711,358
Salaries, contract labor, benefits and taxes	(139,493)	(115,789)
Printing and postage	(33,108)	(24,866)
Other expenses	<u>(3,718)</u>	<u>(1,392)</u>
Total membership services expenses	<u>(176,319)</u>	<u>(142,047)</u>
Net membership services revenue and expenses	<u>\$ 604,931</u>	<u>\$ 569,311</u>

**NATIONAL CUTTING HORSE ASSOCIATION**

**SCHEDULE VI -  
SCHEDULES OF OTHER REVENUES AND GENERAL  
AND ADMINISTRATIVE COSTS**

	<b>Year Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2015</b>
	<u>                    </u>	<u>                    </u>
Convention registration	\$ 45,300	\$ 39,794
Donations and other miscellaneous income	52,883	19,090
Fines and protests	18,235	18,200
Horse records	8,191	6,376
	<u>                    </u>	<u>                    </u>
Total other revenues	124,609	83,460
Bank and credit card fees	(251,293)	(221,799)
Non-capital repairs and maintenance	(151,870)	(58,058)
Utilities	(137,933)	(80,881)
Insurance	(116,099)	(78,761)
Convention expenses	(111,528)	(77,407)
Various committee expenses	(94,150)	(90,964)
Dues, fees and subscriptions	(71,270)	(48,306)
Hall of fame expenses	(10,726)	(14,857)
Other expenses	(175,351)	(165,103)
	<u>                    </u>	<u>                    </u>
Total other general and administrative costs	(1,120,220)	(836,136)
Net other revenues and general and administrative costs	<u>\$ (995,611)</u>	<u>\$ (752,676)</u>