National Cutting Horse Association and Affiliate

Consolidated Financial Statements
September 30, 2019 and 2018

Sutton Frost Cary LLP
Certified Public Accountants

National Cutting Horse Association and Affiliate

Contents

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Independent Auditors' Report

To the Board of Directors of
National Cutting Horse Association

We have audited the accompanying consolidated financial statements of National Cutting Horse Association and Affiliate (nonprofit organizations), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 2019 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Cutting Horse Association and Affiliate as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

The consolidated financial statements of National Cutting Horse Association as of and for the year ended September 30, 2018 were audited by other auditors whose report dated March 15, 2019 expressed an unmodified opinion on those statements.

Correction of Error

As discussed in Note 2 to the consolidated financial statements, certain errors resulting in an understatement of amounts previously reported for cash, revenue and expenses as of September 30, 2018 were discovered by management during the current year. Accordingly amounts reported for cash, revenue and expenses have been restated in the 2018 consolidated financial statements now presented and an adjustment has been made to net assets as of October 1, 2017 to correct the errors. Our opinion is not modified with respect to that matter.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
July 15, 2020

National Cutting Horse Association and Affiliate
Consolidated Statements of Financial Position
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,639,044	$ 2,253,278
Restricted cash - PAC	124,939	253,182
Investments	8,991,608	8,622,375
Accounts receivable, less allowance for doubtful accounts of $3,622 and $2,688, respectively	158,290	299,638
Accounts receivable - State of Texas incentives	2,233,613	515,388
Accounts receivable, net - related party	78,289	49,714
Prepaid expenses	248,896	290,796
Total current assets	13,474,679	12,284,371
Property and equipment, net	1,899,663	2,706,771
Total assets	$ 15,374,342	$ 14,991,142
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 663,167	$ 1,048,253
Deferred revenue for future shows	2,865,641	2,812,463
Deferred revenue for stallion/foal fees	2,522,897	2,350,197
Deferred membership dues	373,744	437,110
Deferred sponsorship revenue	370,500	30,041
Youth scholarships	1,060,984	1,117,678
Total current liabilities	7,856,933	7,795,742
Net assets:		
Net asset without donor restrictions:		
Undesigntated	6,874,402	6,604,822
Board designated for youth activities	371,182	337,396
Total net assets without donor restrictions	7,245,584	6,942,218
Net assets with donor restrictions, restated (Note 4)	271,825	253,182
Total net assets	7,517,409	7,195,400
Total liabilities and net assets	$ 15,374,342	$ 14,991,142

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Activities
Years Ended September 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenue and support:		
Shows and related activities	$ 19,398,852	$ 20,130,783
Affiliate and independent producers activities	1,297,008	1,324,590
Promotion and development	1,171,912	1,507,499
Member services	755,811	705,517
Other income	121,669	206,064
Net investment income	366,224	306,562
Total revenue and support	23,111,476	24,181,015
Net assets released from restrictions:		
Satisfaction of donor restriction	250,460	1,738,381
Total revenue and support, net	23,361,936	25,919,396
Expenses		
Member services	795,032	897,954
Events	17,181,547	17,787,684
General and administrative	3,976,626	4,943,897
Promotion and development	1,105,365	1,540,024
Total expenses	23,058,570	25,169,559
Increase in net assets without donor restrictions	303,366	749,837
Changes in net assets with donor restrictions:		
PAC contributions	269,103	146,780
Net assets released from restrictions	(250,460)	(1,738,381)
Increase (decrease) in net assets with donor restrictions	18,643	(1,591,601)
Change in net assets	322,009	(841,764)
Net assets at beginning of year, as restated	7,195,400	8,037,164
Net assets at end of year	$ 7,517,409	$ 7,195,400

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2019

	Program					
	Member Services	Events	Total	General and Administrative	Promotion and Development	Total
Salaries, taxes and benefits	$ 417,111	$ 509,697	$ 926,808	$ 1,239,748	$ 383,003	$ 2,549,559
Approved shows	-	22,100	22,100	-	-	22,100
Awards	-	697,214	697,214	17,584	-	714,798
Bank fees	-	-	-	231,465	-	231,465
Cattle	-	1,883,309	1,883,309	-	-	1,883,309
Contract labor	34,071	3,729	37,800	51,816	165,251	254,867
Committees	-	-	-	108,575	-	108,575
Convention	199,297	-	199,297	10,917	-	210,214
Depreciation and amortization	-	-	-	877,632	-	877,632
Dues and subscriptions	150	10	160	66,465	9,246	75,871
Insurance	-	-	-	170,625	-	170,625
Judges and show labor	-	1,025,673	1,025,673	-	-	1,025,673
Office supplies	3,335	2,355	5,690	29,272	6,182	41,144
Other	92,145	2,003,329	2,095,474	45,375	33,811	2,174,660
PAC lobbying and contributions	-	-	-	250,460	-	250,460
Printing and postage	24,058	953	25,011	11,869	266,399	303,279
Professional fees	-	-	-	491,985	216,000	707,985
Premiums paid	-	9,798,243	9,798,243	-	-	9,798,243
Rent	-	1,203,165	1,203,165	48,039	-	1,251,204
Repairs and maintenance	-	7,171	7,171	71,306	-	78,477
Scholarships	9,598	-	9,598	-	-	9,598
Special projects	11,971	23,190	35,161	-	3,097	38,258
Property taxes	-	-	-	32,769	-	32,769
Technology and software	-	-	-	77,441	4,033	81,474
Travel	2,788	809	3,597	30,789	17,074	51,460
Utilities	508	600	1,108	112,494	1,269	114,871
	$ 795,032	$ 17,181,547	$ 17,976,579	$ 3,976,626	$ 1,105,365	$ 23,058,570

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2018

	Program					
	Member Services	Events	Total	General and Administrative	Promotion and Development	Total
Salaries, taxes and benefits	$ 446,993	$ 443,503	$ 890,496	$ 1,689,967	$ 458,141	$ 3,038,604
Approved shows	-	64,416	64,416	-	-	64,416
Awards	9,588	1,207,673	1,217,261	88,406	-	1,305,667
Bank fees	-	-	-	260,430	-	260,430
Cattle	-	1,971,300	1,971,300	-	-	1,971,300
Contract labor	37,889	8,430	46,319	114,714	143,722	304,755
Committees	-	-	-	132,906	-	132,906
Convention	190,989	-	190,989	-	-	190,989
Depreciation and amortization	700	3,905	4,605	881,707	-	886,312
Dues and subscriptions	811	339	1,150	140,223	6,138	147,511
Insurance	-	-	-	129,976	-	129,976
Judges and show labor	-	947,497	947,497	-	-	947,497
Office supplies	2,241	4,751	6,992	39,477	5,691	52,160
Other	90,591	1,770,842	1,861,433	152,739	123,201	2,137,373
PAC lobbying and contributions	-	-	-	213,189	-	213,189
Printing and postage	46,946	5,543	52,489	9,576	355,563	417,628
Professional fees	-	-	-	658,716	209,001	867,717
Premiums paid	-	10,043,028	10,043,028	-	-	10,043,028
Rent	-	1,258,337	1,258,337	23,620	-	1,281,957
Repairs and maintenance	-	556	556	174,130	-	174,686
Scholarships	64,153	39,000	103,153	-	-	103,153
Special projects	861	14,834	15,695	25	216,610	232,330
Property taxes	-	-	-	45,411	-	45,411
Technology and software	-	-	-	24,520	-	24,520
Travel	6,192	3,720	9,912	31,251	21,957	63,120
Utilities	-	10	10	132,914	-	132,924
	$ 897,954	$ 17,787,684	$ 18,685,638	$ 4,943,897	$ 1,540,024	$ 25,169,559

See notes to consolidated financial statements.

National Cutting Horse Association and Affiliate
Consolidated Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 322,009	$ (841,764)
Adjustments to reconcile change in net assets to		
net cash used by operating activities:		
Depreciation and amortization	877,632	886,312
Allowance for doubtful accounts	(934)	-
Realized and unrealized losses on investments	14,897	15,480
Changes in assets and liabilities:		
Accounts receivable	142,282	(31,620)
Accounts receivable - State of Texas incentives	(1,718,225)	(58,233)
Accounts receivable - related party	(28,575)	(35,982)
Prepaid expenses	41,900	71,788
Accounts payable and accrued liabilites	(385,086)	305,148
Deferred revenue for future shows	53,178	(518,016)
Deferred revenue for stallion/foal fees	172,700	32,700
Deferred membership dues	(63,366)	(37,945)
Deferred sponsorship revenue	340,459	(216,209)
Youth scholarships	(56,694)	79,461
Net cash used by operating activities	(287,823)	(348,880)
Cash flows from investing activities:		
Proceeds form sale of investments	5,830,894	2,293,588
Purchases of investments	(6,215,024)	(4,039,880)
Purchases of property and equipment	(70,524)	(32,433)
Net cash used by investing activities	(454,654)	(1,778,725)
Net decrease in cash and cash equivalents	(742,477)	(2,127,605)
Cash and cash equivalents at beginning of year	2,506,460	4,634,065
Cash and cash equivalents at end of year	$ 1,763,983	$ 2,506,460
Reconciliation of cash and cash equivalents and restricted cash reported within the consolidated statement of financial position to the consolidated statement of cash flows:		
Cash and cash equivalents	$ 1,639,044	$ 2,253,278
Restricted cash - PAC	124,939	253,182
Total cash and cash equivalents and restricted cash shown in the consolidated statement of cash flows	$ 1,763,983	$ 2,506,460

See notes to consolidated financial statements.

1. Organization

The National Cutting Horse Association (NCHA) is a not-for-profit organization incorporated under the laws of the state of Texas. The purpose of NCHA is to encourage the development of, and public interest in, livestock and ranching through the promotion and sponsorship of public cutting horse contests, the public exhibition of cutting horses in conjunction with cattle and livestock, and the presentation and participation of cutting horse events in other general livestock exhibitions, shows, and expositions. NCHA also sets standards for cutting horse contests; standardizes the election and appointment of judges and directors for such contests, exhibitions, and expositions; and, encourages the development and breeding of finer cutting horses. NCHA's corporate offices are located in Fort Worth, Texas. NCHA is primarily supported by shows and related activities revenue.

NCHA's Texas Events Political Action Committee (PAC) was formed in 2008 giving NCHA a vehicle to make political contributions to selected candidates and lobbyists. These political contributions are subject to the PAC's adopted policies along with certain legal restrictions of the Federal Election Commission. The NCHA Executive Committee serves as the board of the PAC.

NCHA and the PAC are collectively referred to here in as the Association.

2. Correction of Error

The Association's net assets as of October 1, 2017 were restated to correct the following errors to record the cash, revenue and expenses of the PAC that should have been consolidated with NCHA. The effect of the restatement as of October 1, 2017 resulted in an increase in cash of $253,182, increase in revenue for PAC contributions of $146,780, increase in PAC related expenses of $213,189, and increase net assets with donor restriction of $319,591.

3. Summary of Significant Accounting Policies

The accounting policies of the Association confirm to US. generally accepted accounting principles (GAAP). The more significant accounting policies of the Association are described below.

Consolidated Financial Statements

The consolidated financial statements include the accounts and transactions of NCHA and the PAC. All significant intercompany accounts and transaction have been eliminated.

Basis of Accounting

The Association prepares the consolidated financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

Consolidated Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Net assets without donor restrictions* - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.
>
> *Net assets with donor restrictions* - Net assets subject to donor stipulations that will be met by actions of the Association and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Association to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a board of directors approved spending policy. As of September 30, 2019 and 2018, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions whose restrictions are met in the same year the contributions are received are reported as net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable. The Association places cash and cash equivalents, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. The Association has not experienced losses on such assets. At September 30, 2019 the Association had uninsured bank balances totaling $1,247,329.

Accounts receivable are unsecured and are continually evaluated by the Association for collectability. Allowances for potential losses are maintained, if considered necessary. Marketable securities are subject to various risks, such as interest rate, credit and overall market volatility risks.

A substantial portion of the Association's revenue is dependent on membership dues and support from venue management organizations in the United States. As such, economic cycles, government legislation and trends in the venue management community may have an impact on revenue and support of the Association.

Cash Equivalents

The Association considers highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in marketable equity securities are recorded at their fair values in the accompanying consolidated statements of financial position. Changes in the fair values are reported in the consolidated statements of activities. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of investments are included in the consolidated statements of activities.

The Association's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Association's financial position and the level of risk inherent in most investments, it is reasonable possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

Accounts Receivable

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

Property and Equipment

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

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

Depreciation and amortization are computed using the straight-ling method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	5 – 39 years
Automobile and trailers	5 – 7 years
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 stipulations regarding how long such donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The association reclassifies net assets with donor restriction to net assets without donor restriction at such time.

Collections

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

Revenue Recognition

Membership dues are recognized as revenue during the applicable membership period. Show fees, entry fees, event ticket sales and exhibit fees are recognized as revenue in the period the event his held. Membership dues and registration revenue received before year-end and relating to the next fiscal year are classified as deferred revenue in the consolidated statements of financial position. Sponsorship revenue is recognized as the contract terms are satisfied.

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.

Income Taxes

The majority of activities of NCHA are exempt from federal income taxes under section 501(c)(6) of the Internal Revenue Code (IRC). Activities of the PAC are exempt from federal income taxes under section 527 of the IRC. However, some activities of the Association are subject to federal income taxes under unrelated business income rules. Neither NCHA or the PAC had material amounts of unrelated business income for the years ended September 30, 2019 and 2018.

GAAP requires the evaluation of tax positions taken in the course of preparing the Association's tax returns and recognition of a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association, and has concluded that as of September 30, 2019 and 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the consolidated financial statements. Accordingly, certain costs have been allocated between member services, events, general and administrative and promotion and development based on management's judgment considering time spent or direct relation to the program or support service benefited.

Advertising Costs

Advertising costs are expensed as incurred and totaled $34,688 and $153,669 for the years ended September 30, 2019 and 2018, respectively.

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Reclassifications

Certain reclassifications were made to the September 30, 2018 consolidated financial statements to conform to the September 30, 2019 presentation.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Association considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Association's financial position and changes in net assets.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2020 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of consolidated financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the consolidated statements of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the consolidated statements of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2021.

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

Accounting Pronouncements Adopted

The Association adopted FASB ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* as of and for the year ended September 30, 2019 with retrospective application for the September 30, 2018 consolidated financial statements. As result, the major changes applicable for the Association include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the consolidated statements of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (d) presenting investment return net of external and direct internal investment expenses. The Association opted to not disclose liquidity and availability information as of September 30, 2018 as permitted under the ASU in the year of adoption. The adoption of this ASU had no effect on net assets or the changes in net assets presented for the years ended September 30, 2019 and 2018.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that the consolidated statements of cash flows explains the change during the year in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with the cash and cash equivalents when reconciling the beginning of year and end of year total amounts shown on the consolidated statements of cash flows. The amendments in this update are an improvement to GAAP because they provide guidance on the presentation of restricted cash or restricted cash equivalents in the consolidated statements of cash flows. The Association has adopted this ASU as of and for the year ended September 30, 2019 with retrospective application for the 2018 consolidated financial statements.

4. Restricted Cash - PAC

The PAC maintains a separate bank account for political contributions and the balance is reported as restricted cash in the attached consolidated statement of financial position. PAC restricted cash as of September 30, 2019 and 2018 totaled $124,939 and $253,182, respectively. The PAC activity is reported as net assets with donor restrictions.

5. Fair Value Measurements

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

Level 1 Inputs to the valuation methodology are quoted prices available in active markets;

Level 2 Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable;

Level 3 Inputs to the valuation methodology are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Money market funds are valued using $1 for the net asset value and are classified within Level 1 of the valuation hierarchy.
Mutual funds are valued at the closing price reported on the active markets on which the individual securities are traded and are classified within Level 1 of the valuation hierarchy.

Corporate and foreign bonds are valued by a third-party pricing source using pricing models maximizing the use of observable inputs for same or similar securities. This includes basing value on yields currently available on same or comparable securities of issued with similar credit ratings.

The following table presents fair values of investments as of September 30:

	2019	2018
Money market	$ 407,284	$ 257,653
Mutual funds	7,868,906	7,529,708
Corporate bonds	614,654	733,101
Foreign bonds	100,764	101,913
	$ 8,991,608	$ 8,622,375

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2019:

	Level 1	Level 2	Total
Money market fund	$ 407,284	$ -	$ 407,284
Mutual Funds:			
Fixed income	4,508,973	-	4,508,973
Growth	934,972	-	934,972
Equity	633,775	-	633,775
Mid-cap	631,892	-	631,892
International	447,609	-	447,609
Small cap	130,183	-	130,183
Emerging markets	306,119	-	306,119
Real estate	275,383	-	275,383
Corporate bonds	-	614,654	614,654
Foreign bonds	-	100,764	100,764
Total investments	$ 8,276,190	$ 715,418	$ 8,991,608

The following table details the fair value hierarchy for investments measured at fair value as of September 30, 2018:

	Level 1	Level 2	Total
Money market fund	$ 257,653	$ -	$ 257,653
Mutual Funds:			
Bonds	4,511,011	-	4,511,011
Equities:			
Growth	430,247	-	430,247
Equity	842,958	-	842,958
Mid-cap	476,979	-	476,979
International	389,970	-	389,970
Small cap	315,877	-	315,877
Emerging markets	264,695	-	264,695
Real estate	297,971	-	297,971
Corporate bonds	-	733,101	733,101
Foreign bonds	-	101,913	101,913
Total investments	$ 7,787,361	835,014	$ 8,622,375

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

	2019	2018
Dividends and interest	$ 422,939	$ 357,397
Realized investment (losses)	(28,711)	(4,108)
Unrealized losses on investments	13,814	(11,372)
Less: investment fees	(41,818)	(35,355)
	$ 366,224	$ 306,562

As of September 30, 2019 and 2018, respectively, investments in Frost Total Return Bond Fund totaled 16% and 11% of total investments.

6. Property and Equipment

Property and equipment consists of the following at September 30:

	2019	2018
Land	$139,788	$ 139,788
Buildings and improvements	2,318,765	2,318,765
Automobiles and trailers	48,488	48,488
Furniture and equipment	965,412	949,939
Software	2,396,460	2,396,461
Construction in progress	55,052	-
Total property and equipment	$5,923,965	5,853,441
Accumulated depreciation	(4,024,302)	(3,146,670)
Net property and equipment	$ 1,899,663	$ 2,706,771

As of April 1, 2017, the Association's internally developed software, also known as "HUB", was substantially complete and placed into service. For the years ended September 30, 2019 and 2018, the Association incurred amortization expense related to HUB of approximately $799,000.

For the years ended September 30, 2019 and 2018, the Association incurred depreciation expense of approximately $79,000 and $87,000, respectively.

7. Net Assets Without Donor Restrictions

Net assets without donor restrictions totaling $371,182 and $337,396 as of September 30, 2019 and 2018, respectively have been designated by the board of directors for the youth fund.

8. Net Assets With Donor Restriction

Net assets with donor restrictions as of September 30, 2019 and 2018 are available for PAC-related expenditures.

9. Major Events Reimbursement Program

The Major Events Reimbursement Program (MERP) is designed to provide reimbursement for specific expenses incurred in the production of the Triple Crown events. Based on approved applications, the state of Texas provides incentives to the City of Fort Worth for certain qualifying Association events held in the Fort Worth area. The City of Fort Worth, in turn, provides incentives to the Association for the purpose of enhancing Association shows that qualify for the state incentives. During the years ended September 30, 2019 and 2018, the Association received $2,233,613 and $2,491,641, respectively. This revenue is included in shows and related activities on the accompanying consolidated statements of activities. As of September 30, 2019 and 2018, the Association had receivables related to state incentive reimbursements totaling $2,233,613 and $515,388, respectively.

10. Defined Contribution Plan

The Association sponsors a defined contribution salary deferral plan (the "Deferred Plan") covering substantially all employees. Employees can make voluntary contributions. The Association matches 100% of employee contributions up to 3% of the employee's eligible compensation plus a 50% matching contribution on any additional salary deferrals above 3% up to 5% of eligible compensation. The Association, at its discretion, may also contribute an additional amount, as it deems necessary. During the years ended September 30, 2019 and 2018, the Association made matching contributions of approximately $49,000 and $66,000, respectively. The Association made no discretionary contributions to the Deferred Plan during the years ended September 30, 2019 and 2018.

11. Stallion/Foal Deferred Revenue

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

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

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

The stallion insurance fee of $100 expired as of 2018 in accordance with program rules.

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

Foaling year (by deadline)	$	200
Weanling year (by deadline)		600
2 year old (by deadline)		2,500
3 year old and up		5,000

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

During the interim three years between the close of the old program in 2011 and the initial foal disbursements in 2015, $500,000 per year (for a total of $1,500,000 over the three years) was advanced to the Super Stakes from the general fund to maintain added money in the show. 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. As of September 30, 2018 the remaining balance to be disbursed to the general fund totaled $1,000,000. During 2019, the Executive Committee of the board of directors approved the remaining balance to be transferred to the general fund, which reduced deferred revenue by $750,000 in accordance the Executive Committee minutes dated January 22-23, 2019.

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

	2019	2018
Stallion fees collected for the 2019 Super Stakes	$ -	$ 432,500
Stallion fees collected for the 2020 Super Stakes	104,400	343,500
Stallion fees collected for the 2021 Super Stakes	126,397	367,497
Stallion fees collected for the 2022 Super Stakes	110,100	330,000
Stallion fees collected for the 2023 Super Stakes	312,600	276,600
Stallion fees collected for the 2024 Super Stakes	255,300	24,000
Stallion fees collected for the 2025 Super Stakes	6,800	-
Total stallion fees collected	915,597	1,774,097
Total advance to the Super Stakes	-	(1,000,000)
	915,597	774,097
Foal fees collected for the 2019 Super Stakes	-	561,600
Foal fees collected for the 2020 Super Stakes	598,900	549,300
Foal fees collected for the 2021 Super Stakes	540,000	445,600
Foal fees collected for the 2022 Super Stakes	450,800	19,600
Foal fees collected for the 2023 Super Stakes	17,600	-
Total foal fees collected	1,607,300	1,576,100
Deferred revenue for stallion/ foal fees	$ 2,522,897	$ 2,350,197

12. Line-of-Credit Agreement

In August 2018, the Association entered into a line-of-credit agreement with a financial institution in the amount of $2,000,000. This line of credit expires in August 2020, bears interest at prime rate as published in the Wall Street Journal (5.00% at September 30, 2019), and is secured by certain investment accounts also held at the financial institution. No amounts were due under the note at September 30, 2019 and 2018.

13. National Affiliates

The Association receives a percentage of gross entry fees from national affiliates from their cutting horse contests. During the years ended September 30, 2019 and 2018, respectively, the Association received entry fees of approximately $1,250,000 and $1,265,000 from these affiliates. Expenses related to these affiliate contests for the years ended September 30, 2019 and 2018 totaled approximately $338,000 and $405,000, respectively.

The Association pays insurance costs on behalf of the affiliates, which totaled approximately $26,000 and $22,000 for the years ended September 30, 2019 and 2018, respectively.

14. 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, 2019 and 2018, respectively, the Association had a net receivable of approximately $78,000 and $50,000, respectively, due from the Foundation relating to reimbursement of costs, which is included in accounts receivable, net – related party in the accompanying consolidated statements of financial position.

15. 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.

Office Equipment Leases

The Association leases certain office equipment under operating leases which mature in 2024. Rental expense under these leases approximated $68,000 and $23,000 for the years ended September 30, 2019 and 2018, respectively. Future minimum lease payments consist of the following amounts for the years ended September 30:

2020	$ 79,848
2021	46,428
2022	41,989
2023	23,904
2024	17,928
	$ 210,097

Facility Leases

The Association leases facilities from the city of Fort Worth under a ten-year operating lease, which matures in December 2028, for the purpose of holding the Super Stakes and Super Stakes Classic, Summer Cutting Spectacular, World Championship Futurity, and World Finals events each year. The amounts paid for the facilities rental under the lease were approximately $459,000 and $438,000 during the years ended September 30, 2019 and 2018, respectively.

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

2020	$ 345,000
2021	366,000
2022	386,000
2023	396,000
2024	418,000
Thereafter	2,031,000
	$ 3,942,000

Horse Auction Royalties

During 2011, the Association entered into an agreement with Western Bloodstock, Ltd (WB), which was extended through January 1, 2026. WB is the exclusive auction provider for all horse sales during events produced by the Association. In connection with the agreement, WB pays the Association the greater of 4% of annual gross sales, as defined by the agreement, or $500,000, and also reimburses the Association for various expenses incurred in connection with the sale of horses. During the years ended September 30, 2019 and 2018, the Association received approximately $649,000 and $594,000, respectively, from WB in connection with the horse sales each year. These horse auction royalties are recorded in show and related activities revenue in the accompanying consolidated statements of activities. The royalties are received at the conclusion of the calendar year.

16. Liquidity and Availability of Resources

The Association's financial assets available within one year of the consolidated statement of financial position date of September 30, 2019 for general expenditures are as follows:

	2019
Cash and cash equivalents	$ 1,639,044
Restricted cash	124,939
Investments	8,991,608
Accounts receivable	158,290
Accounts receivable - State of Texas incentives	2,233,613
Accounts receivable, net - related party	78,289
Total financial assets	13,225,783
Less amounts unavailable for general expenditures within one year, due to:	
Entry fees/sponsorships for future shows	3,236,141
Stallion/Foal program	2,522,897
Youth scholarships	1,060,984
Board-designated youth fund	371,182
Donor restricted net asset for PAC expenditures	271,825
Financial assets not available for general expenditures	7,463,029
Total financial assets available to meet cash needs for general expenditures within one year	$ 5,762,754

The Association manages its liquidity and reserves to maintain adequate liquid assets to fund near-term operating needs and ensure financial assets are available as its general expenditures, liabilities and other obligations come due. During the year ended September 30, 2019 the level of liquidity was managed within the Association's expectations.

17. Subsequent Events

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity in the north central Texas area. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Association, if any, cannot be determined at this time.

The Association transferred the youth scholarship funds to the Foundation as of October 1, 2019. The balance at the date of transfer was $1,060,984.

The Association evaluated subsequent events through the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required.