

ARABIAN HORSE ASSOCIATION
AND ARABIAN BREEDERS SWEEPSTAKES TRUST

Combined Financial Statements As Of March 31, 2021
(With Summarized Financial Information For
The Year Ended March 31, 2020)

Together With Independent Auditors' Report

JDS professional
group
certified public accountants, consultants and advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Arabian Horse Association:

Report on the Financial Statements

We have audited the accompanying combined financial statements of Arabian Horse Association and Arabian Breeders Sweepstakes Trust (collectively referred to as the "Organization") which comprise the combined statement of financial position as of March 31, 2021, and the related combined statements of activities, functional expenses and cash flows for the year then ended 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 audit. We conducted our audit 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 of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the combined 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.

Independent Auditors' Report (Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's March 31, 2020 financial statements, and our report dated October 28, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedules 1-5 are presented for purposes of additional analysis and are 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 audit 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.

JDS Professional Group

March 3, 2023

ARABIAN HORSE ASSOCIATION
Combined Statement of Financial Position
As of March 31, 2021
(with Summarized Financial Information as of March 31, 2020)

	<u>ASSETS</u>							
	<u>Net Assets Without Donor Restrictions</u>					Total Net Assets With Donor Restrictions	Current Year Total	Prior Year Total
	Operations	Prize Money Programs	Total	Purpose Restrictions	Perpetual in Nature			
Assets:								
Cash and cash equivalents (Note 4)	\$ 1,668,045	\$ 840,456	\$ 2,508,501	\$ 6,270	\$ -	\$ 6,270	\$ 2,514,771	\$ 609,428
Investments (Note 4)	1,453,644	8,988,099	10,441,743	(216)	59,779	59,563	10,501,306	10,140,092
Receivables -								
Interest	1,629	-	1,629	-	-	-	1,629	7,283
Trade, net of allowance	210,568	-	210,568	-	-	-	210,568	216,755
Unconditional promises to give, net of allowance	-	-	-	-	-	-	-	-
Notes receivable (Note 6)	103,608	-	103,608	-	-	-	103,608	333,045
Inventory	84,923	-	84,923	-	-	-	84,923	85,244
Prepayments and other Assets	128,112	-	128,112	-	-	-	128,112	80,837
Deferred tax asset (Note 3)	141,779	-	141,779	-	-	-	141,779	100,185
Interfund receivable/(payable)	(12,777)	13,399	622	5,395	(6,017)	(622)	-	-
Property and equipment, net of accumulated depreciation of \$6,741,564 (Note 7)	822,318	-	822,318	-	-	-	822,318	963,488
TOTAL ASSETS	<u>\$ 4,601,849</u>	<u>\$ 9,841,954</u>	<u>\$ 14,443,803</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 65,211</u>	<u>\$ 14,509,014</u>	<u>\$ 12,536,357</u>
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable	\$ 366,902	\$ 51,048	\$ 417,950	\$ -	\$ -	-	417,950	\$ 541,797
Accrued liabilities	188,748	10,675	199,423	-	-	-	199,423	181,442
Capital lease obligations (Note 14)	137,063	-	137,063	-	-	-	137,063	108,627
Refundable advance	190,000	-	190,000	-	-	-	190,000	-
Refundable advance - PPP (Note 8)	503,019	-	503,019	-	-	-	503,019	-
Deferred revenues (Note 9)	911,296	-	911,296	-	-	-	911,296	989,932
Obligations to prize programs (Note 10)	99,270	9,780,231	9,879,501	-	-	-	9,879,501	9,933,386
Total Liabilities	<u>2,396,298</u>	<u>9,841,954</u>	<u>12,238,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,238,252</u>	<u>11,755,184</u>
Commitments & Contingencies (Note 16)								
Net Assets: (Note 11)								
Net assets without donor restrictions								
Undesignated	1,227,732	-	1,227,732	-	-	-	1,227,732	-
Designated	977,819	-	977,819	-	-	-	977,819	715,962
Total net assets without donor restrictions	<u>2,205,551</u>	<u>-</u>	<u>2,205,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,205,551</u>	<u>715,962</u>
Net assets with donor restrictions - purpose restrictions	-	-	-	11,449	-	11,449	11,449	11,449
Net assets with donor restrictions - perpetual in nature	-	-	-	-	53,762	53,762	53,762	53,762
Total Net Assets	<u>2,205,551</u>	<u>-</u>	<u>2,205,551</u>	<u>11,449</u>	<u>53,762</u>	<u>65,211</u>	<u>2,270,762</u>	<u>781,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,601,849</u>	<u>\$ 9,841,954</u>	<u>\$ 14,443,803</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 65,211</u>	<u>\$ 14,509,014</u>	<u>\$ 12,536,357</u>

The accompanying notes are an integral part of the financial statements.

ARABIAN HORSE ASSOCIATION
 Combined Statement of Activities
 For the Year Ended March 31, 2021
 (with Summarized Financial Information for the year ended March 31, 2020)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		Current Year Total	Prior Year Total
		Purpose Restrictions	Perpetual In Nature		
REVENUES AND OTHER SUPPORT:					
Horse shows	\$ 5,889,132	\$ -	\$ -	\$ 5,889,132	\$ 6,618,373
Registrations	765,455	-	-	765,455	845,518
Memberships dues	845,142	-	-	845,142	879,825
Service fees	936,654	-	-	936,654	1,127,800
Advertising	8,960	-	-	8,960	64,216
Sponsorship/donations	(1,386)	-	-	(1,386)	73,156
Merchandising	82,149	-	-	82,149	108,563
Net investment return	962,167	-	-	962,167	7,983
Fund raising	9,758	-	-	9,758	21,651
Other	250,632	-	-	250,632	176,737
Total Revenue and Other Support	<u>9,748,663</u>	<u>-</u>	<u>-</u>	<u>9,748,663</u>	<u>9,923,822</u>
EXPENSES:					
Program Services -					
Events and shows	4,427,332	-	-	4,427,332	5,128,111
Sales and marketing	300,802	-	-	300,802	776,317
Member services	460,817	-	-	460,817	533,096
Registry services	524,911	-	-	524,911	504,869
Judges programs	285,429	-	-	285,429	445,129
Total Program Expenses	<u>5,999,291</u>	<u>-</u>	<u>-</u>	<u>5,999,291</u>	<u>7,387,522</u>
Supporting Services -					
General administration	1,858,716	-	-	1,858,716	2,147,728
Membership development	147,962	-	-	147,962	279,270
Total Supporting Services Expenses	<u>2,006,678</u>	<u>-</u>	<u>-</u>	<u>2,006,678</u>	<u>2,426,998</u>
Total Expenses	<u>8,005,969</u>	<u>-</u>	<u>-</u>	<u>8,005,969</u>	<u>9,814,520</u>
Changes in Net Assets From Operations	1,742,694	-	-	1,742,694	109,302
Non-Operating Expenses:					
Royalty expense (Note 16)	(253,105)	-	-	(253,105)	(265,226)
CHANGES IN NET ASSETS	1,489,589	-	-	1,489,589	(155,924)
Net Assets, Beginning of Year	715,962	11,449	53,762	781,173	937,097
Net Assets, End of Year	<u>\$ 2,205,551</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 2,270,762</u>	<u>\$ 781,173</u>

The accompanying notes are an integral part of the financial statements.

ARABIAN HORSE ASSOCIATION

Combined Statement of Functional Expenses

For the Year Ended March 31, 2021

(with Summarized Financial Information for the year ended March 31, 2020)

	Events & Shows	Sales & Marketing	Member Services	Registry Services	Judges Programs	General Administration	Membership Development	Current Year Total	Prior Year Total
EXPENSES:									
Salaries and benefits	\$ 362,810	\$ 204,103	\$ 282,636	\$ 296,237	\$ 170,876	\$ 1,423,932	\$ 74,060	\$ 2,814,654	\$ 3,319,942
Travel, lodging, and meals	8,923	7,457	3,470	14,305	26,787	18,292	7,778	87,012	276,809
Facilities costs	1,059,735	-	-	-	-	-	-	1,059,735	1,292,019
Production costs	1,021,399	-	-	-	-	-	-	1,021,399	1,181,908
Personnel & volunteer costs	1,045,362	-	-	-	-	-	-	1,045,362	1,192,953
Other program costs	597,096	-	-	-	-	-	-	597,096	674,642
Services and professional fees	2,136	-	1,510	64,395	-	65,588	-	133,629	152,333
Publications, postage, & printing	6,153	22,717	10,797	28,073	862	6,756	13,765	89,123	233,713
Promotions and outreach	28,702	13,423	45,620	-	-	9,384	3,064	100,193	180,631
Office and occupancy costs	60,367	17,743	36,368	36,561	50,338	102,388	9,834	313,599	461,463
Business systems & communications	37,526	18,218	30,787	31,096	16,126	118,863	7,740	260,356	299,269
Bank service & merchant fees	160,740	2,588	20,522	25,137	5,887	1,070	24,444	240,388	247,548
Depreciation	36,383	14,553	29,107	29,107	14,553	109,149	7,277	240,129	283,285
Taxes and fees	-	-	-	-	-	3,294	-	3,294	18,005
Total Functional Expenses	\$ 4,427,332	\$ 300,802	\$ 460,817	\$ 524,911	\$ 285,429	\$ 1,858,716	\$ 147,962	\$ 8,005,969	\$ 9,814,520

The accompanying notes are an integral part of the financial statements.

ARABIAN HORSE ASSOCIATION
 Combined Statement of Cash Flows
 For the Year ended March 31, 2021
 (with Summarized Financial Information for the year ended March 31, 2020)

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>			<u>Prior Year Total</u>
	<u>Operations</u>	<u>Prize Money Programs</u>	<u>Total</u>	<u>Purpose Restrictions</u>	<u>Perpetual in Nature</u>	<u>Total</u>	
Cash flows from operating activities:							
Changes in Net Assets	\$ 1,489,589	\$ -	\$ 1,489,589	\$ -	\$ -	\$ 1,489,589	\$ (155,924)
Adjustments to reconcile Change in Net Assets to net cash provided by operating activities:							
Depreciation	240,129	-	240,129	-	-	240,129	283,285
Allowance for doubtful accounts	410,000	-	410,000	-	-	410,000	(195)
(Gain)/loss on investment fair market	(771,005)	-	(771,005)	-	-	(771,005)	243,934
Decrease (increase) in receivables	(398,159)	-	(398,159)	-	-	(398,159)	(50,033)
Decrease (increase) in notes receivable	229,437	-	229,437	-	-	229,437	(245,425)
Decrease (increase) in inventories	321	-	321	-	-	321	(5,734)
Decrease (increase) in deferred tax asset	(41,594)	-	(41,594)	-	-	(41,594)	(24,545)
Decrease (increase) in prepayments	(47,275)	-	(47,275)	-	-	(47,275)	(7,041)
Increase (decrease) in accounts payable	(130,564)	6,717	(123,847)	-	-	(123,847)	(336,201)
Increase/(decrease) in interfund payable	(163,156)	163,399	243	(125)	(118)	-	-
Increase (decrease) in accrued liabilities	11,341	6,640	17,981	-	-	17,981	12,209
Increase (decrease) in refundable advance	190,000	-	190,000	-	-	190,000	-
Increase (decrease) in deferred revenue	(78,636)	-	(78,636)	-	-	(78,636)	(63,141)
Increase (decrease) in obligations to prize money programs	(222,888)	169,003	(53,885)	-	-	(53,885)	1,142,299
Net cash provided by (used in) operating activities	<u>717,540</u>	<u>345,759</u>	<u>1,063,299</u>	<u>(125)</u>	<u>(118)</u>	<u>1,063,056</u>	<u>793,488</u>
Cash flows from investing activities:							
Purchases of property and equipment	(23,682)	-	(23,682)	-	-	(23,682)	(88,111)
Net investment (purchases) sales	28,626	380,922	409,548	125	118	409,791	(406,931)
Net cash provided by (used in) investing activities	<u>4,944</u>	<u>380,922</u>	<u>385,866</u>	<u>125</u>	<u>118</u>	<u>386,109</u>	<u>(495,042)</u>
Cash flows from financing activities:							
Proceeds from refundable advance - PPP	503,019	-	503,019	-	-	503,019	-
Payments on capital lease obligations	(46,841)	-	(46,841)	-	-	(46,841)	(43,934)
Net cash provided by (used in) financing activities	<u>456,178</u>	<u>-</u>	<u>456,178</u>	<u>-</u>	<u>-</u>	<u>456,178</u>	<u>(43,934)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,178,662	726,681	1,905,343	-	-	1,905,343	254,512
Cash and Cash Equivalents at Beginning of Year	<u>489,383</u>	<u>113,775</u>	<u>603,158</u>	<u>6,270</u>	<u>-</u>	<u>609,428</u>	<u>354,916</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,668,045</u>	<u>\$ 840,456</u>	<u>\$ 2,508,501</u>	<u>\$ 6,270</u>	<u>\$ -</u>	<u>\$ 2,514,771</u>	<u>\$ 609,428</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:							
Interest paid	<u>\$ 5,406</u>						
Equipment purchased under capital lease	<u>\$ 75,277</u>						

The accompanying notes are an integral part of the financial statements.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
For the Year Ended March 31, 2021

(1) Reporting Entity

Purposes of the Organization

Combined financial statements are based on the assumption that they present the financial positions and results of operations as a single entity. The reporting entity referred to as the “Organization” includes the accounts of two organizations, Arabian Horse Association (the “Association”) and the Arabian Breeders Sweepstakes Trust (the “Sweepstakes Trust”). All significant intercompany accounts and transactions have been eliminated.

The Association is a non-profit corporation. The Association was incorporated to aid and encourage the breeding, exhibiting, use and perpetuation of the Arabian horse as well as Half-Arabian and Anglo-Arabian horses. The majority of the Organization’s revenues are derived from national championship Arabian horse shows, Arabian, Half-Arabian and Anglo-Arabian horse registration revenue, memberships and program service fees.

The Sweepstakes Trust is a Trust duly and legally existing under and by virtue of Colorado law. The Sweepstakes Trust was formed in May 1984 and received Federal tax-exempt status in November 2010. The Sweepstakes Trust was established to perform the purposes stated in Internal Revenue Code 501(c)(5) including aiding and encouraging the breeding, exhibiting, using, and perpetuation of the Arabian, Half-Arabian, and Anglo-Arabian horses. The Trustees of the Sweepstakes Trust is the Arabian Horse Association acting by and through its Board of Directors. The Trustees of the Sweepstakes Trust are elected by the Association’s Board of Directors. The majority of the Sweepstakes Trusts’ revenues are derived from program entry fees.

Description of Without Donor Restrictions Program Activities and Supporting Services

Events and Shows

The Events and Shows program expenses include costs related to the management and maintenance of the records for the Association’s horse shows and other events. The following is a description of these activities:

Events

The Association sponsors the following Arabian, Half-Arabian and Anglo-Arabian horse show competitions during the year: U.S. Nationals, Canadian Nationals, Youth and Mid-Summer Nationals, Sport Horse Nationals, and Distance Nationals Championship. The Association works with applicable volunteer committees to promote and manage these competitions. Included in this area is the cost to fulfill the commitments associated with commercial exhibit space, patron packages, event seating, farm flags and event sponsors for the Association’s national events.

Convention

The Association holds an annual meeting where delegates from the Association’s Member Organizations gather to carry on the business of the Association. Such business includes the election of officers, meetings of committees and the consideration of resolutions. The Association works with the applicable volunteer committees in order to promote and coordinate the convention.

Youth Activities

The Association develops and administers activities for its members who are age eighteen and under. Such activities include the Arabian Horse Youth Association, regional youth team tournaments, youth achievement awards and horse judging contests.

Sales and Marketing

The Sales and Marketing expenses span several budget departments and related expenses. Responsibilities include advancing the corporate identity and visibility of AHA products and services and Arabian, Half-Arabian and Anglo-Arabian horses to the public, production of the *Modern Arabian Horse* magazine, marketing collaterals and advertising; as well as sales of sponsorships and advertising in the AHA magazine and other publications.

Market Development & Promotion

These expenses relate to the execution of the Market Development & Promotion Plan which includes design and printing of promotional materials, advertising in AHA and non-AHA publications, attendance at exhibitions for the purpose of promoting the Arabian/Half-Arabian horses and AHA, the development of educational materials and videos, trophies/awards related to Incentive Riding Programs and other recognition programs. Other expenses relate to the Market Development and Promotion Committee meetings and staff travel expenses to various events and meetings.

Communications

The responsibilities of Communications are to write copy for collateral materials, press releases, AHA website and advertising used by departments across AHA. Expenses relate to the purchase of photography management of press releases and public relations contacts, educational publications and memberships, as well as staff travel and lodging related to covering AHA events.

Design and Publications

The Association designs and produces many of its printed materials such as pamphlets, flyers, brochures, prize lists, forms, show programs, convention materials and the annual handbook. The Association also designed, produced, and distributed the *Modern Arabian Horse* magazine. This magazine has traditionally been produced six times a year and provided the latest information about the Association and the Arabian horse industry. The *Modern Arabian Horse* magazine was distributed to the membership of the Association and other interested parties. Production of the *Modern Arabian Horse* magazine ceased with the June 2020 issue.

Sponsorships and Merchandisers

Sponsorship expenses include the related costs and staff time for the fulfillment of sponsorship contractual requirements and merchandising relationships. In addition, various office supplies and related costs are incurred to support sales and fulfillment by staff of sponsorship and merchandiser relationships.

Event Sales

Expenses included relate to the sale of event packages such as commercial exhibit space, patronships and sponsorships.

Member Services

Member Services program expenses include the costs of maintaining the membership records of the Organization and administering the following program activities:

Shows

The Association is responsible for recognizing US Equestrian Federation rated and Equine Canada equivalent shows. Association recognition is sought so that show exhibitors can earn qualification points for future shows and for achievement awards. Expenses include the cost of administering the recognition process, maintaining the related show results records and processing the national show entries.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Achievement Awards

The Association administers and issues achievement awards for all Arabian, Half-Arabian and Anglo-Arabian horses and amateur exhibitors that are enrolled in this program.

Agency Relationships

The Association acts in an agency capacity for the Sweepstakes, Halter Futurity, Yearling Jackpot and Performance Futurity programs. This includes the collection of all cash, payment of prize money and the record keeping for all facets of these programs (see supplemental financial statements). Net interest on the entries received in the Sweepstakes, Yearling Jackpot, and Performance Futurity programs is added to prize payout for these programs. Interest on the entries received in the Halter Futurity program is used to support the activities of the Association.

Registry Services

The Association registers and transfers the recorded ownership of Arabian, Half-Arabian and the Anglo-Arabian horses. Expenses include the cost of maintaining the registration and transfer for these stud books, genetic testing, racing certificates, registration certificate changes, special service file investigations and delivery of customer service.

Judges Programs

The Judges program expenses include the costs associated with the operation of the Judges & Stewards Commissioner's office including judges schools, seminars, evaluations and all related committees. Also included are the costs associated with the Majority Opinion Scoring system.

General Administration

General administration expenses include business management, office, building, purchasing, information systems, accounting, human resources, legal, insurance, general public relations and Board and committee operations.

Membership Development

Membership development expenses include costs related to promoting membership in the Association and developing and providing new services and benefits to its members.

(2) Summary of Significant Accounting Policies

Method of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Management estimates also affect the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Basis of Presentation

The financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Association to report information regarding its financial position and activities according to the following net asset classifications:

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Association management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Association's ongoing services and interest and dividends earned on investments. Nonoperating activities include royalties paid on the license agreement and other activities considered to be of a more unusual, nonrecurring nature, or not part of their mission.

Risks And Uncertainties

The global community has been under a significant threat from coronavirus ("COVID-19"). The extent to which the COVID-19 pandemic impacts the Organization's business, results of operations and financial condition will depend on future developments, which are still uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, the Organization may continue to experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future. Therefore, the Organization cannot reasonably estimate the impact at this time.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less, except for money market funds, to be cash equivalents.

Fair Value Measurements

The Organization follows *Fair Value Measurements* which among other things require enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework 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 the standard are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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 asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Following is a description of the valuation methodologies used for assets measured at fair value

U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange Traded Funds: Valued at the closing price reported on the active market on which the funds are traded.

Money market: Approximates fair value because of the immediate or short-term maturities of these financial statements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

The carrying amount reported in the statement of financial position for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments.

Trade Receivables

Trade receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. As of March 31, 2021, the allowance was \$14,367.

Inventory

Inventory consists of trophies, plaques and ribbons for the Organization's horse shows. Inventory is recorded at the lower of cost or net realizable value.

Property and Equipment

Property and equipment is stated at cost or fair market value, if donated, and depreciated over the following estimated useful lives using the straight-line method:

Furniture and fixtures	10 years
Equipment and software	5 years
Films	3 years
Building & Land Improvements	10 years
Building	30 years

Expenditures for maintenance, repairs and minor replacements are charged to operations and expenditures for major replacements and improvements of \$1,000 or more are capitalized.

Capital leases are recorded at the lower of fair market value or the present value of future minimum lease payments. Amortization of capital leases is included with depreciation expense.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Revenue And Revenue Recognition

Horse show revenues are recognized at a point in time as the shows are held. Registration revenues are recognized at a point in time as performance obligations are met. Performance obligations consist of issuing certificates and registering foals. Membership dues revenue (excluding life memberships) is recognized over the membership period as this revenue only has an exchange element based on the value of benefits provided. Life membership revenue is recognized over the expected active membership period which has been determined at ten years. Service fees revenues are recognized at a point in time (\$460,618) and over time (\$476,036) as performance obligations are met. Performance obligations consist of providing service and holding horse shows. Advertising revenue is recognized at a point in time as magazines are printed (performance obligations are met). Merchandising revenues are recognized as items are sold (point in time - \$19,522) and over time for the Data Source subscriptions (\$62,627). Other revenue is recognized at a point in time as services are performed. Payments are due upon invoicing.

The Organization recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Unconditional promises to give are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year. As of the March 31, 2022, all unconditional promises to give are due within one year. As of March 31, 2021, the allowance against unconditional promises to give was \$410,000.

Conditional promises to give with a measurable performance or other barrier and a right of return/right of release are not recognized until the conditions on which they depend have been met. As of March 31, 2021, contributions approximating \$1,180,000, have not been recognized in the accompanying statement of activities because the condition on which they depend has not yet been met. The conditional contributions depend upon the show being held. As of March 31, 2021, the Organization received advances on conditional promises to give of \$190,000, which is recognized in the statement of financial position as a refundable advance.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Services

A significant portion of the Association's functions, which are conducted by unpaid volunteers, is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition.

Methods Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. These expenses include depreciation, office & facilities maintenance, business systems maintenance, supplies, and bank service & merchant fees. Depreciation, office & facilities maintenance, business systems maintenance, and supplies expenses are all allocated based on relative staffing levels for the functional groups. Bank service & merchant fees are allocated based on relative revenues earned by the functional groups.

Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization financial statements for the year ended March 31, 2020, from which the summarized information was derived.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Evaluation of Subsequent Events

The Organization has performed an evaluation of subsequent events through March 3, 2023, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes. See Note 8 for the disclosure on the Refundable Advance – Paycheck Protection Program and Note 20 for the disclosure on litigation. Additionally, on July 29, 2022, the Association sold its building for \$2,160,000 and on October 26, 2022 it purchased a building for \$1,290,000.

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers: Topic 606, to supercede nearly all existing revenue recognition guidance relative to exchange transactions under U.S. GAAP. The Organization adopted the provisions of this guidance on April 1, 2020, using the modified retrospective approach and applied the standard to contracts as of the date of adoption. The adoption did not have a material impact on the Organization’s revenue recognition.

In June 2018, FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made, which clarifies how entities determine whether to account for a transfer of assets as an exchange transaction or contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605, Not-for-Profit Entities -Revenue Recognition, which exchange transactions are accounted for under other guidance such as ASC 606, Revenue from Contracts with Customers. The guidance also clarified how entities determine whether a contribution is conditional or unconditional. The Organization adopted the provisions of this guidance on April 1, 2020, using the prospective approach. The adoption did not have a material impact on the Organization’s revenue recognition.

(3) Tax Exempt Status

The Association and Sweepstakes Trust are exempt from income tax under 501(c)(5) of the Internal Revenue Code except for amounts representing unrelated business income.

Certain portions of the Organization’s operations are subject to unrelated business income tax. No income tax expense was incurred for the year ended March 31, 2021.

The Organization follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires them to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. During the year ended March 31, 2021, the Organization’s management evaluated its tax positions to determine the existence of uncertainties, and did not note any matters that would require recognition or which may have an effect on its tax-exempt status.

The Association is no longer subject to U.S. federal and state income tax audits on its Form 990 and Form 990-T for years prior to Fiscal Year 2019, and is no longer subject to audits on its related state return by taxing authorities for years prior to Fiscal Year 2018. The Sweepstakes Trust is no longer subject to U.S. federal income tax audits on its Form 990 for years prior to Fiscal Year 2019. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations. Although the outcome of tax audits is uncertain, the Organization believes no material issues would arise. Historically, the Sweepstakes Trust’s has operated as a division of the Association and accordingly, the Sweepstakes Trust’s activity has been included in the Association’s tax return. The Sweepstakes Trust applied for its own tax exempt status and was notified on May 8, 2012, the acceptance of such tax exempt status by the Internal Revenue Service. The Sweepstakes Trust commenced filing its own Form 990 beginning with the fiscal year ended March 31, 2012.

The deferred tax asset for the year ended March 31, 2021, was \$141,779. This reflects the income tax impact of the estimated net operating loss carry-forward in the amount of \$554,909.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(4) Investments and Concentration of Credit Risk

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of March 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Exchange Traded Funds				
Preferred stocks	\$ 1,609,728	\$ -	\$ -	\$ 1,609,728
Large value stocks	1,042,630	-	-	1,042,630
Large blend stocks	897,687	-	-	897,687
Short term bonds	255,793	-	-	255,793
Intermediate term bonds	480,330	-	-	480,330
Treasury bonds	849,480	-	-	849,480
Corporate bonds	264,042	-	-	264,042
Bonds				
U.S. Federal Bonds	981,952	-	-	981,952
Guaranteed certificate	15,186	-	-	15,186
Total investments at fair market value	<u>\$ 6,396,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,396,828</u>
Money Market				<u>4,104,478</u>
Total investments				<u>\$ 10,501,306</u>

Concentration of Credit Risk:

The money markets invest in U.S. government securities and are not concentrated in any specific U.S. geographical area or industry group. The exchange traded funds invest in stocks, tracked in national indexes such as the S&P500, and diversified in broad market sectors. U.S. bond obligations are backed by the full faith and credit of the U.S. government.

The majority of the Organization's cash demand deposits are held at financial institutions in which deposits are insured up to \$250,000 per institution by the FDIC. As of March 31, 2021, the Organization's cash demand deposits held at financial institutions did exceed the FDIC's insured limits by approximately \$1,622,000. Additionally, as of March 31, 2021, the Organization's cash demand deposits held at financial institutions did exceed the Canadian Deposit Insurance Corporation's insured limits by approximately \$33,000.

As of March 31, 2021, 100% of the unconditional promise to give was from one grantor, however, it has a full allowance against it.

(5) Prize Money Program Assets

Sweepstakes assets are held in trust by the Organization for its Sweepstakes program participants. The agreement governing the trust and the rules and regulations of the Sweepstakes program mandate that the principal of these assets shall be used solely to fund awards to Sweepstakes winners and for no other purpose during the duration of the Sweepstakes program.

In addition, the Association acts in an agency capacity for the Halter Futurity, Yearling Jackpot and Performance Futurity prize money program assets.

	<u>Cash</u>	<u>Investments</u>	<u>Interfund Receivable</u>	<u>Interest</u>	<u>Total</u>
Sweepstakes program	\$ 836,100	\$ 8,344,148	\$ (134,825)	\$ -	\$ 9,045,423
Halter Futurity	4,356	643,951	(30,727)	-	617,580
Yearling Jackpot	-	-	17,525	-	17,525
Performance Futurity	-	-	161,426	-	161,426
Total	<u>\$ 840,456</u>	<u>\$ 8,988,099</u>	<u>\$ 13,399</u>	<u>\$ -</u>	<u>\$ 9,841,954</u>

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

The net interest earned on the investments of the Sweepstakes and Performance Futurity programs is added to prize money payout for these programs. The net interest earned on cash investments of the Halter Futurity program is used to support the activities of the Association. The realized and unrealized gains or losses on the investments of the Sweepstakes, Halter Futurity and Performance Futurity programs are recognized as without donor restrictions income available for the activities of the Association. Yearling Jackpot interest is added on to prize money payout for associated classes.

(6) Sweepstakes Notes Receivable

On April 1, 2005, the Organization changed from taking promissory notes from participants in the Sweepstakes program who wished to finance their entries to a deferred billing program which accomplished the same purpose but is administered more efficiently. Each form of financing is a contractual obligation of the participant. Although money collected on these receivables is an asset of the Sweepstakes Trust, the receivable itself is not considered to be an asset of the Trust. The Trust agreement prevents any amounts not yet actually received from being included in the assets available to pay prize money. As payments are received, they are then included in the total Sweepstakes program assets available for payment of prize money. As of March 31, 2021, the carrying value approximated the fair market value. The receivables are determined to be past due based upon the contractual terms. The receivable is shown net of approximately \$37,005 in notes receivable that is considered potentially uncollectible.

(7) Property and Equipment

All property and equipment is stated at cost. A summary of capitalized property and equipment is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture	\$ 278,572	\$ 278,572	\$ -
Equipment and software	5,453,082	5,145,183	307,899
Films	62,912	62,912	-
Building	1,021,938	865,729	156,209
Building improvements	570,434	375,149	195,285
Land	162,925	-	162,925
Land improvements	14,019	14,019	-
	<u>\$ 7,563,882</u>	<u>\$ 6,741,564</u>	<u>\$ 822,318</u>

Amounts under capital leases, which are included in equipment and software consist of the following as of March 31, 2021:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment and software	<u>\$ 275,316</u>	<u>\$ 140,622</u>	<u>\$ 134,694</u>

(8) Refundable Advance – Paycheck Protection Program

In May 2020, the Organization qualified for and received a refundable advance pursuant to the Paycheck Protection Program (“PPP”), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender, for an aggregate amount of \$503,019. Subsequent to year end, the Organization was notified this first refundable advance was fully forgiven. Furthermore, the Organization received a second refundable advance in May 2021 for an aggregate amount of \$457,150. The Organization filed for full forgiveness of the second refundable advance in May 2022. The amount of the refundable advance, if any, that will be forgiven has not yet been determined.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(9) Deferred Revenue

Deferred revenue consists of the following as of March 31, 2021:

Membership dues	\$ 781,842
Shows	72,794
Other	56,660
	<u>\$ 911,296</u>

Deferred membership dues represent the portion of membership revenue collected during the current fiscal year that applies to activity for subsequent fiscal years. The deferred horse show revenue represents revenue collected during the current fiscal year for events held during the next fiscal year. The proceeds from such events might be refunded if the event were canceled.

(10) Obligation to Prize Money Programs

Agency obligations consist of the following:

	<u>Breeders Sweepstakes</u>	<u>Halter Futurity</u>	<u>Yearling Jackpot</u>	<u>Performance Futurity</u>	<u>Total</u>
Liabilities:					
Accounts payable	\$ 47,817	\$ 3,231	\$ -	\$ -	\$ 51,048
Accrued liabilities	<u>10,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,675</u>
Prize money program assets currently committed	58,492	3,231	-	-	61,723
Amounts retained for future payout	<u>8,986,931</u>	<u>614,349</u>	<u>17,525</u>	<u>161,426</u>	<u>9,780,231</u>
Obligations to prize money programs	<u>\$ 9,045,423</u>	<u>\$ 617,580</u>	<u>\$ 17,525</u>	<u>\$ 161,426</u>	<u>\$ 9,841,954</u>
Obligation related to Sweepstakes Promissory Notes & Deferred Billing					<u>99,270</u>
					<u>\$ 9,941,224</u>

Sweepstakes accounts payable is primarily due to unclaimed Sweepstakes checks and amounts due for government withholdings as of March 31, 2021. Accrued liabilities are prize money amounts that have been won and are in the process of being paid as of March 31, 2021.

Sweepstakes promissory notes and deferred billings represent amounts owed from participants in the Sweepstakes program who have elected to finance Sweepstakes entry nominations. New financing arrangements increase this reported amount and payments received from participants will decrease this amount.

(11) Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available to fund current operations of the Association. Certain portions of net assets without donor restrictions have been designated by the Association's Board of Directors or by Convention resolution to be used for specific purposes.

Undesignated

Undesignated net assets without donor restrictions represent the accumulated excess of unrestricted revenues over expenses that have not been set aside by the Board of Directors as designated net assets.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Designated

Designated net assets without donor restrictions are those assets that have been designated by the Association's Board of Directors or by Convention resolution for specific purposes.

Education and Evaluation Net Assets

Participants at certain horse shows are required to pay additional entry fees in order to fund a judges and stewards education and evaluation program. In accordance with the resolution establishing this program, the related activity produces designated net assets. As of March 31, 2021, the Education and Evaluation designated funds amounted to \$56,764.

Scoring Net Assets

Participants at certain horse shows are required to pay additional fees in order to fund the implementation and administration of the Majority Opinion Scoring (MOS) system. In accordance with the resolution establishing this system, the related activity produces designated net assets. As of March 31, 2021, scoring designated funds amounted to \$49,943.

Legal Defense Fund

The Legal Defense Fund, established in 1999, is funded by donations, settlements of legal action and the interest earned thereon. Such funds are used only for legal expenses related to legal defense. Donations are classified as with donor restrictions and settlements and interest are without donor restrictions. The Legal Defense Fund without donor restrictions funds as of March 31, 2021, amounted to \$155,934.

Half-Arabian/Anglo-Arabian Promotional Fund

The Half-Arabian/Anglo-Arabian Promotional Fund, established in 2003 as a part of the merger between International Arabian Horse Association and the Arabian Horse Registry of America, is funded by the Association out of Half-Arabian and Anglo-Arabian registration revenue. One-third of the revenues are transferred to this fund. The purpose of the fund is to provide promotional activities that will promote the Half-Arabian and Anglo-Arabian horses. One-third of the revenues for the year were \$50,720 and related expenses were \$0. The Half-Arabian/Anglo-Arabian Promotional Fund as of March 31, 2021, amounted to \$190,494.

Contingency Fund

The Board of Directors designated \$524,684 as of March 31, 2021, for future repairs, replacements, or other unexpected expenses.

Net Assets With Donor Restrictions

Purpose Restrictions

Purpose restrictions net assets may only be used according to specific donor imposed stipulations. Once these stipulations are met, either through the passage of time or by actions of the Association, these assets will be released from the purpose restriction. Donations to the Legal Defense Fund are classified as donor restricted net assets. Such funds are used only for legal expenses related to legal defense. Donor restricted net assets consist of the following as of March 31, 2021:

Legal Defense fund	\$ -
Purpose Restrictions	11,449
Perpetual in Nature	53,762
Total Net Assets With Donor Restrictions	<u>\$ 65,211</u>

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Perpetual In Nature

Perpetual in nature net assets as of March 31, 2021, consisted of the Yearling Jackpot with earnings to be used for future prize payouts.

Legal Defense Fund

The Legal Defense Fund consists of net assets with donor restrictions made up solely of donations and designated funds without donor restrictions from all other sources including, but not limited to, settlements and interest earned on investments. The balances in the areas making up the Legal Defense Fund as of March 31, 2021, are as follows:

Designated funds without donor restrictions	\$ 155,934
Donor restricted funds	-
	<u>\$ 155,934</u>

(12) Endowment

General

The Endowment Fund may include both donor-restricted endowment funds as well as funds designated by the Board to function as endowments. The endowment funds may be established for either specific purposes or general operating use. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Association interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditure and any purpose restrictions have been met. The Board of Directors of the Association has interpreted UPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Association would consider the fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gifts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law.

In accordance with UPMIFA, the Association considers the following factors in make a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the Association.

Changes in Endowment Net Assets as of March 31, 2021

	<u>With donor restrictions</u>
Endowment net assets, beginning of the year	\$ 53,762
Changes and reclassifications	-
Endowment net assets, end of year	<u>\$ 53,762</u>

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Association's policy towards the Yearling Jackpot investment account is that investment earnings are to be added to the pool of money paid out to competition members who enter, show and win in classes designated as Yearling Jackpot classes at the National level.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Underwater Funds

As of March 31, 2021, no funds were underwater.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(13) Employee 401(k) Plan/Pension Plan

The Association's 401(k) plan allows no more than 17% of a participant's compensation to be allocated to a participant's account during any plan year. The Association discontinued the employer match contribution on March 31, 2020. Total expenses for this 401(k) plan for the fiscal year ending March 31, 2021, are \$0. Neither the assets nor the liabilities of the pension plan/401(k) plan are reflected in these financial statements. The Association's plan obligation for the year end March 31, 2021, is fully funded. The Association resumed the employer match contribution on July 1, 2021, with matching up to 1% of the participant contributions.

(14) Capital Lease Obligations

The following represent obligations under capital leases for equipment as of March 31, 2021:

Due in monthly installments of principal and interest of \$2,138 through November 2023, interest rate 7.0%, secured by equipment	\$ 64,594
Less: Interest	<u>6,169</u>
Present value of future minimum lease payments	58,425
Less: Current Portion	<u>21,992</u>
Total long term portion	<u><u>\$ 36,433</u></u>
Due in monthly installments of principal and interest of \$2,234 through January 2024, interest rate 4.4%, secured by equipment	\$ 78,198
Less: Interest	<u>4,891</u>
Present value of future minimum lease payments	73,307
Less: Current Portion	<u>24,093</u>
Total long term portion	<u><u>\$ 49,214</u></u>

Future annual maturities of these obligations as of March 31, 2021, are as follows:

2022	\$ 46,085
2023	47,156
2024	<u>43,822</u>
	<u><u>\$ 137,063</u></u>

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(15) Operating Lease Commitment

The Association has entered into leases for storage space, with various lease term expirations through March 2022.

Future minimum rental payments are as follows:

	<u>Storage</u>
2022	\$ 43,951
	<u>\$ 43,951</u>

Total rent expense for the year ended March 31, 2021, was \$39,357.

(16) Commitments and Contingencies

License Agreement

Pursuant to the Merger Agreement which formed the Association, there exists a License Agreement (the "Agreement") between the Association and The Purebred Arabian Trust (the "Trust"). In this agreement, the Trust granted to the Association an exclusive, perpetual license to use the database, software, and information technology in conducting its Purebred Registration activities. In consideration of this license, the Association pays to the Trust a royalty of one-third of purebred registration revenues. The Agreement may be altered, amended or revoked only by an instrument in writing signed by all parties to the Agreement. In the year ended March 31, 2021, the Association paid to the Trust \$253,105 in royalty. Ownership of the licensed rights remains with the Trust and in the event that a bankruptcy or dissolution of the Association occurs or the failure to pay royalty, the licensed rights would revert to the Trust. The Arabian Horse Association Market Development and Promotion Committee may solicit funding for Purebred marketing or promotional activities from the Trust. The Trustees of the Trust may, at their sole discretion, agree to fund the Purebred marketing or promotional activities. In the year ended March 31, 2021, the Trust funded promotional activities in the amount of \$0. Since inception, the Association has paid to the Trust \$7,093,226 in royalty and the Trust has funded Market Development & Promotion activities within the Association in the amount of \$1,899,786.

Future Commitment

During the year ended March 31, 2019, the Association entered into a contract for stages and drapery for the U.S. Nationals show in Tulsa, OK in the amount of \$221,292. As of March 31, 2021, \$132,774 has been incurred. The Association will incur \$44,258 each year through the fiscal year ending March 31, 2023.

(17) Expenses

Total expenses for the year ended March 31, 2021, were as follows:

	Total Expense	Less: Royalty Expense	Total Expense Reported By Function
Program expenses	\$ 6,252,396	\$ (253,105)	\$ 5,999,291
Supporting services	2,006,678	-	2,006,678
Total expenses	\$ 8,259,074	\$ (253,105)	\$ 8,005,969

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the year ended March 31, 2021, advertising costs totaled \$950.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(18) Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include assets set aside that could be drawn upon if the governing board approves that action. Additionally, financial assets do not include assets committed to the prize money programs.

Financial assets, at year-end	\$ 3,321,109
Less: those unavailable for general expenditures within one year, due to:	
Designated by the governing board (Note 10)	<u>(977,819)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,343,290</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

(19) New Accounting Pronouncement

In December of 2018, FASB issued ASU No. 2018-20, Leases. ASU No. 2018-20 which requires the Organization to recognize all leased assets on the statement of financial position with corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosure as to the nature and extend of leasing activities. The requirements of this statements are effective for the Organization's year ended March 31, 2023. The Organization has not evaluated the impact due to the timing of implementation of this standard.

(20) Litigation

Subsequent to year end, the Association is involved in two litigations. The trial of one of the matters has been completed and resulted in a verdict in favor of the Association. On the second litigation, the Association's insurance company is the party handling the matter. Although the outcome of the second litigation cannot be predicted with certainty, the Association expects to prevail.

ARABIAN BREEDERS SWEEPSTAKES TRUST
Sweepstakes Supplemental Schedule of Financial Position
As of March 31, 2021 and March 31, 2020

	Balance as of Mar-21	Balance as of Mar-20
<u>ASSETS</u>		
Cash	\$ 836,100	\$ 91,792
Investments	8,344,148	8,716,220
Interfund Receivable	(134,825)	42,926
TOTAL ASSETS	\$ 9,045,423	\$ 8,850,938
<u>LIABILITIES</u>		
Accounts Payable (1)	\$ 47,817	\$ 42,268
Accrued Liabilities (2)	10,675	4,035
Prize Money Program Assets Currently Committed	58,492	46,303
Amounts Retained for Future payout	8,986,931	8,804,635
TOTAL LIABILITIES	\$ 9,045,423	\$ 8,850,938

(1) Amounts in Sweepstakes accounts payable are primarily due to unclaimed Sweepstakes checks amounts due for government withholdings and unfunded disbursements as of period end.

(2) Amounts in Sweepstakes accrued liabilities are prize money amounts that have been won and are in the process of being paid as of period end.

ARABIAN BREEDERS SWEEPSTAKES TRUST
Sweepstakes Supplemental Schedule of Activities
For the periods ended March 31, 2021 and March 31, 2020

	Balance as of Mar-21	Balance as of Mar-20
<u>RECEIPTS</u>		
Entries	\$ 937,833	\$ 1,662,858
Interest		
<u>EXPENDITURES</u>		
Prize Money (3)	755,536	726,477
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	182,296	936,381
Amounts Retained for Future Payout, Beginning of Period	8,804,635	7,868,254
Amounts Retained for Future Payout, End of Period	\$ 8,986,931	\$ 8,804,635

(3) Prize money expenditures, reported on a fiscal year basis, may show variances resulting from timing differences in reporting show results and the payout of prize money.

ARABIAN BREEDERS SWEEPSTAKES TRUST

Sweepstakes Investments

As of March 31, 2021

<u>Description</u>	<u>Maturity Date</u>	<u>Face Value or Cost Basis</u>	<u>Face Yield</u>
Cash	n/a	\$ 836,100	0.00%
Money Market	next day	\$ 3,640,855	0.10%
U.S. Government Bonds:			
FHLB note	Aug-21	200,000	2.50%
FFCB note	May-23	780,000	0.35%
Total bonds		\$ 980,000	
Mutual Funds:			
Preferred -- PFF		1,407,619	
Low Volatility S&P 500 -- SPLV		483,647	
SPDR S&P500 ETF -- SPY		381,273	
ishares 3-7 year treasury bonds		649,331	
ishares 0-5 year corporate bonds		200,935	
Pimco investment corporate bonds		201,732	
Vanguard mortgage backed bonds		398,756	
Total mutual funds		\$ 3,723,293	
Total Cash and Investments		\$ 9,180,248	

ARABIAN HORSE ASSOCIATION
Halter Futurity Supplemental Schedule of Financial Position
As of March 31, 2021 and March 31, 2020

	<u>Balance</u> <u>as of Mar-21</u>	<u>Balance</u> <u>as of Mar-20</u>
<u>ASSETS</u>		
Cash	\$ 4,356	\$ 21,983
Investments	643,951	652,801
Interfund Receivable	<u>(30,727)</u>	<u>(42,273)</u>
TOTAL ASSETS	<u>\$ 617,580</u>	<u>\$ 632,511</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 3,231	\$ 2,063
Amounts Retained for Future Payout	<u>614,349</u>	<u>630,448</u>
TOTAL LIABILITIES	<u>\$ 617,580</u>	<u>\$ 632,511</u>

ARABIAN HORSE ASSOCIATION
Halter Futurity Supplemental Schedule of Activities
For the periods ended March 31, 2021 and March 31, 2020

	<u>Balance</u> <u>as of Mar-21</u>	<u>Balance</u> <u>as of Mar-20</u>
<u>RECEIPTS</u>		
Nominations	\$ 43,500	\$ 40,920
Renominations	56,595	56,840
Late Fees	17,200	16,800
Show fees	<u>10,400</u>	<u>7,400</u>
TOTAL RECEIPTS	<u>127,695</u>	<u>121,960</u>
<u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	<u>143,794</u>	<u>144,955</u>
TOTAL EXPENDITURES	<u>143,794</u>	<u>144,955</u>
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	(16,099)	(22,995)
Amounts Retained for Future Payout, Beginning of Period	<u>630,448</u>	<u>653,443</u>
Amounts Retained for Future Payout, End of Period	<u>\$ 614,349</u>	<u>\$ 630,448</u>

ARABIAN HORSE ASSOCIATION
Yearling Jackpot Supplemental Schedule of Financial Position
As of March 31, 2021 and March 31, 2020

	<u>Balance as of Mar-21</u>	<u>Balance as of Mar-20</u>
<u>ASSETS</u>		
Cash & Investments	\$ -	\$ -
Interfund Receivable	17,525	17,518
Accrued Interest	-	-
TOTAL ASSETS	<u>\$ 17,525</u>	<u>\$ 17,518</u>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	\$ 17,525	\$ 17,518
TOTAL LIABILITIES	<u>\$ 17,525</u>	<u>\$ 17,518</u>

ARABIAN HORSE ASSOCIATION
Yearling Jackpot Supplemental Schedule of Activities
For the periods ended March 31, 2021 and March 31, 2020

	<u>Balance as of Mar-21</u>	<u>Balance as of Mar-20</u>
<u>RECEIPTS</u>		
Entries	\$ -	\$ -
Interest	7	976
TOTAL RECEIPTS	7	976
 <u>EXPENDITURES</u>		
Prize Money	-	-
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	7	976
Amounts Retained for Future Payout, Beginning of Period	17,518	16,542
Amounts Retained for Future Payout, End of Period	<u>\$ 17,525</u>	<u>\$ 17,518</u>

ARABIAN HORSE ASSOCIATION
Performance Futurity Supplemental Schedule of Financial Position
As of March 31, 2021 and March 31, 2020

	<u>Balance as of Mar-21</u>	<u>Balance as of Mar-20</u>
<u>ASSETS</u>		
Cash & Investments	\$ -	\$ -
Interfund Receivable	161,426	158,627
TOTAL ASSETS	<u>\$ 161,426</u>	<u>\$ 158,627</u>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	\$ 161,426	\$ 158,627
TOTAL LIABILITIES	<u>\$ 161,426</u>	<u>\$ 158,627</u>

ARABIAN HORSE ASSOCIATION
Performance Futurity Supplemental Schedule of Activities
For the periods ended March 31, 2021 and March 31, 2020

	<u>Balance as of Mar-21</u>	<u>Balance as of Mar-20</u>
<u>RECEIPTS</u>		
Entries	\$ 357,399	\$ 346,299
Late Fees & Interest	8,500	15,000
TOTAL RECEIPTS	<u>365,899</u>	<u>361,299</u>
 <u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	363,100	367,900
TOTAL EXPENDITURES	<u>363,100</u>	<u>367,900</u>
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	2,799	(6,601)
Amounts Retained for Future Payout, Beginning of Period	<u>158,627</u>	<u>165,228</u>
Amounts Retained for Future Payout, End of Period	<u>\$ 161,426</u>	<u>\$ 158,627</u>