



## **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 (the "Organization") which comprise the combined statement of financial position as of March 31, 2019, 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.

#### *Members:*

*American Institute of Certified Public Accountants • Colorado Society of Certified Public Accountants*

10303 E. Dry Creek Road, Suite 400 • Englewood, CO 80112 • 303 771 0123 • 303 771 0078 fax

[www.jdscpagroup.com](http://www.jdscpagroup.com)

## 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, 2019, 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.

### **Effect of Adopting New Accounting Standard**

As discussed in Note 2, the Organization adopted the Financial Accounting Standards Board's Accounting Standards update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958)-Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended March 31, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

### **Report on Summarized Comparative Information**

We have previously audited the Organization's 2018 financial statements, and our report dated October 29, 2018, 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, 2018, 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*

October 31, 2019

**ARABIAN HORSE ASSOCIATION**  
 Combined Statement of Financial Position  
 As of March 31, 2019  
 (with Summarized Financial Information as of March 31, 2018)

	<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				
<b>Assets:</b>									
Cash and Cash Equivalents (Note 4)	\$ 258,575	\$ 90,071	\$ 348,646	\$ 6,270	\$ -	6,270	354,916	\$ 572,936	
Cash Investments (Note 4)	1,467,695	8,450,832	9,918,527	(158)	58,726	58,568	9,977,095	9,500,265	
Accounts Receivable -									
Interest	10,381	319	10,700	192	-	192	10,892	13,472	
Trade	177,480	-	177,480	-	-	-	177,480	249,553	
Allowance for Doubtful Accounts	(14,562)	-	(14,562)	-	-	-	(14,562)	(124,141)	
Notes Receivable (Note 6)	87,620	-	87,620	-	-	-	87,620	70,633	
Inventory, at lower of cost									
(Weighted Average) or market	79,510	-	79,510	-	-	-	79,510	79,129	
Prepayments and Other Assets	73,796	-	73,796	-	-	-	73,796	133,702	
Deferred Tax Asset	75,640	-	75,640	-	-	-	75,640	30,640	
Interfund Receivable/(Payable)	(194,456)	194,275	(181)	5,145	(4,964)	181	-	-	
Property and equipment, net of accumulated depreciation of \$6,340,359 (Note 7)	<u>1,158,662</u>	<u>-</u>	<u>1,158,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,158,662</u>	<u>1,301,672</u>	
<b>TOTAL ASSETS</b>	<u><b>\$ 3,180,341</b></u>	<u><b>\$ 8,735,497</b></u>	<u><b>\$ 11,915,838</b></u>	<u><b>\$ 11,449</b></u>	<u><b>\$ 53,762</b></u>	<u><b>65,211</b></u>	<u><b>11,981,049</b></u>	<u><b>\$ 11,827,861</b></u>	
<b>LIABILITIES AND NET ASSETS</b>									
<b>Liabilities:</b>									
Accounts Payable	\$ 847,318	\$ 30,680	\$ 877,998	\$ -	\$ -	-	877,998	\$ 606,945	
Accrued Liabilities	167,883	1,350	169,233	-	-	-	169,233	161,051	
Loan Payable	-	-	-	-	-	-	-	-	
Capital Lease Obligations (Note 13)	152,561	-	152,561	-	-	-	152,561	98,183	
Deferred Revenues (Note 8)	1,053,073	-	1,053,073	-	-	-	1,053,073	883,151	
Obligations to prize programs (Note 9)	87,620	8,703,467	8,791,087	-	-	-	8,791,087	8,496,972	
Total Liabilities	<u>2,308,455</u>	<u>8,735,497</u>	<u>11,043,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,043,952</u>	<u>10,246,302</u>	
<b>Contingencies &amp; Commitments (Note 15)</b>									
<b>Net Assets: (Note 10)</b>									
Net assets without donor restrictions									
Undesignated	0	-	0	-	-	-	0	606,646	
Designated	<u>871,886</u>	<u>-</u>	<u>871,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>871,886</u>	<u>909,702</u>	
Total net assets without donor restrictions	871,886	-	871,886	-	-	-	871,886	1,516,348	
Net assets with donor restrictions - purpose restrictions	-	-	-	11,449	-	11,449	11,449	11,449	
Net assets with donor restrictions - perpetual in nature	-	-	-	-	<u>53,762</u>	<u>53,762</u>	<u>53,762</u>	<u>53,762</u>	
Total Net Assets	<u>871,886</u>	<u>-</u>	<u>871,886</u>	<u>11,449</u>	<u>53,762</u>	<u>65,211</u>	<u>937,097</u>	<u>1,581,559</u>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 3,180,341</b></u>	<u><b>\$ 8,735,497</b></u>	<u><b>\$ 11,915,838</b></u>	<u><b>\$ 11,449</b></u>	<u><b>\$ 53,762</b></u>	<u><b>65,211</b></u>	<u><b>11,981,049</b></u>	<u><b>\$ 11,827,861</b></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, 2019  
 (with Summarized Financial Information for the year ended March 31, 2018)

	Net Assets Without <u>Donor Restrictions</u>	Net Assets		Current Year <u>Total</u>	Prior Year <u>Total</u>
		<u>With Donor Restrictions</u> Purpose <u>Restrictions</u>	Perpetual <u>In Nature</u>		
<b>REVENUES AND OTHER SUPPORT:</b>					
Horse shows	\$ 6,340,828	\$ -	\$ -	\$ 6,340,828	\$ 6,206,214
Registrations	902,320	-	-	902,320	951,331
Memberships dues	924,088	-	-	924,088	881,892
Service fees	1,164,238	-	-	1,164,238	1,245,217
Advertising	115,845	-	-	115,845	105,791
Sponsorship/donations	57,829	-	-	57,829	141,276
Merchandising	128,147	-	-	128,147	186,377
Net investment return	395,121	-	-	395,121	173,222
Fund raising	24,697	-	-	24,697	25,615
Other	(1,625)	-	-	(1,625)	5,959
Net assets release from restrictions:					
Satisfaction of program restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>10,051,488</u>	<u>-</u>	<u>-</u>	<u>10,051,488</u>	<u>9,922,894</u>
<b>EXPENSES:</b>					
Program Services -					
Events and shows	4,892,590	-	-	4,892,590	4,950,581
Sales and marketing	1,020,832	-	-	1,020,832	976,600
Member services	511,422	-	-	511,422	460,972
Registry services	488,802	-	-	488,802	493,462
Judges programs	418,839	-	-	418,839	449,352
Total Program Expenses	<u>7,332,485</u>	<u>-</u>	<u>-</u>	<u>7,332,485</u>	<u>7,330,967</u>
Supporting Services -					
General administration	2,783,070	-	-	2,783,070	2,396,521
Membership development	300,148	-	-	300,148	353,584
Total Supporting Services Expenses	<u>3,083,218</u>	<u>-</u>	<u>-</u>	<u>3,083,218</u>	<u>2,750,105</u>
Total Expenses	<u>10,415,703</u>	<u>-</u>	<u>-</u>	<u>10,415,703</u>	<u>10,081,072</u>
Changes in Net Assets From Operations	(364,215)	-	-	(364,215)	(158,178)
Non-Operating Expenses:					
Royalty expense (Note 15)	<u>(280,247)</u>	<u>-</u>	<u>-</u>	<u>(280,247)</u>	<u>(313,456)</u>
<b>CHANGES IN NET ASSETS</b>	<b>(644,462)</b>	<b>-</b>	<b>-</b>	<b>(644,462)</b>	<b>(471,634)</b>
Net Assets, Beginning of Year	<u>1,516,348</u>	<u>11,449</u>	<u>53,762</u>	<u>1,581,559</u>	<u>2,053,193</u>
Net Assets, End of Year	<u>\$ 871,886</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 937,097</u>	<u>\$ 1,581,559</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, 2019  
 (with Summarized Financial Information for the year ended March 31, 2018)

	Events & Shows	Sales & Marketing	Member Services	Registry Services	Judges Programs	General Administration	Membership Development	Current		Prior	
								Year	Total	Year	Total
EXPENSES:											
Salaries and benefits	\$ 277,247	\$ 614,499	\$ 301,671	\$ 234,437	\$ 187,848	\$ 1,562,293	\$ 175,828	\$ 3,353,823	\$ 3,321,421		
Travel, lodging, and meals	55,400	25,461	10,323	31,041	73,673	91,003	12,753	299,654	308,611		
Facilities costs	1,296,315	-	-	-	-	-	-	1,296,315	1,278,559		
Production costs	1,184,788	-	-	-	-	-	-	1,184,788	1,281,008		
Personnel & volunteer costs	1,128,851	-	-	-	-	-	-	1,128,851	1,090,070		
Other program costs	570,236	-	-	-	-	-	-	570,236	576,582		
Services and professional fees	2,338	638	30	83,484	-	834,469	-	920,959	470,473		
Publications, postage, & printing	9,041	155,207	19,544	28,062	2,677	18,197	16,092	248,820	255,905		
Promotions and outreach	47,404	75,881	52,661	-	4,815	9,691	5,991	196,443	174,734		
Office and occupancy costs	70,083	44,408	44,357	39,485	112,745	44,640	26,527	382,245	449,440		
Business systems & communications	41,463	52,488	33,002	26,899	16,732	118,454	20,021	309,059	310,921		
Bank service & merchant fees	173,062	9,828	19,533	21,153	8,228	809	24,755	257,368	272,037		
Depreciation	36,362	42,422	30,301	24,241	12,121	103,025	18,181	266,653	252,673		
Taxes and fees	-	-	-	-	-	489	-	489	38,638		
Total Functional Expenses	<u>\$ 4,892,590</u>	<u>\$ 1,020,832</u>	<u>\$ 511,422</u>	<u>\$ 488,802</u>	<u>\$ 418,839</u>	<u>\$ 2,783,070</u>	<u>\$ 300,148</u>	<u>\$ 10,415,703</u>	<u>\$ 10,081,072</u>		

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, 2019  
 (with Summarized Financial Information for the year ended March 31, 2018)

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>			Prior Year Total
	<u>Operations</u>	Prize Money <u>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	\$ (644,462)	\$ -	\$ (644,462)	\$ -	\$ -	\$ (644,462)	\$ (471,634)
Adjustments to reconcile Change in Net Assets to net cash provided by operating activities:							
Depreciation	266,653	-	266,653	-	-	266,653	252,673
(Gain)/loss on sale of fixed assets	631	-	631	-	-	631	-
Allowance for doubtful accounts	(109,579)	-	(109,579)	-	-	(109,579)	117,120
(Gain)/loss on investment fair market	(161,464)	-	(161,464)	-	-	(161,464)	17,141
Decrease (increase) in accounts receivable	75,054	(400)	74,654	-	-	74,654	(69,950)
Decrease (increase) in notes receivable	(16,987)	-	(16,987)	-	-	(16,987)	(6,373)
Decrease (increase) in inventories	(381)	-	(381)	-	-	(381)	(14,615)
Decrease (increase) in deferred tax asset	(45,000)	-	(45,000)	-	-	(45,000)	-
Decrease (increase) in prepayments	59,906	-	59,906	-	-	59,906	7,410
Increase (decrease) in accounts payable	258,033	12,830	270,863	-	-	270,863	191,327
Increase/(decrease) in interfund payable	(98,810)	108,014	9,204	(10,375)	1,171	-	-
Increase (decrease) in accrued liabilities	19,836	(11,654)	8,182	-	-	8,182	4,235
Increase (decrease) in deferred revenue	169,922	-	169,922	-	-	169,922	173,132
Increase (decrease) in obligations to prize money programs	16,987	277,127	294,114	-	-	294,114	184,175
Net cash provided by (used in) operating activities	<u>(209,661)</u>	<u>385,917</u>	<u>176,256</u>	<u>(10,375)</u>	<u>1,171</u>	<u>167,052</u>	<u>384,641</u>
Cash flows from investing activities:							
Purchases of property and equipment	(16,319)	-	(16,319)	-	-	(16,319)	(32,107)
Net investment activity	51,654	(376,224)	(324,570)	10,375	(1,171)	(315,366)	(215,398)
Net cash provided by (used in) investing activities	<u>35,335</u>	<u>(376,224)</u>	<u>(340,889)</u>	<u>10,375</u>	<u>(1,171)</u>	<u>(331,685)</u>	<u>(247,505)</u>
Cash flows from financing activities:							
Payments on capital loan	190	-	190	-	-	190	(21,191)
Payments on capital lease obligations	(53,577)	-	(53,577)	-	-	(53,577)	(34,680)
Net cash (used in) financing activities	<u>(53,387)</u>	<u>-</u>	<u>(53,387)</u>	<u>-</u>	<u>-</u>	<u>(53,387)</u>	<u>(55,871)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(227,713)</b>	<b>9,693</b>	<b>(218,020)</b>	<b>-</b>	<b>-</b>	<b>(218,020)</b>	<b>81,265</b>
Cash and Cash Equivalents at Beginning of Year	<u>486,288</u>	<u>80,378</u>	<u>566,666</u>	<u>6,270</u>	<u>-</u>	<u>572,936</u>	<u>491,671</u>
Cash and Cash Equivalents at End of Year	<u>\$ 258,575</u>	<u>\$ 90,071</u>	<u>\$ 348,646</u>	<u>\$ 6,270</u>	<u>\$ -</u>	<u>\$ 354,916</u>	<u>\$ 572,936</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>							
Interest paid	<u>\$ 6,848</u>						
Equipment purchased under capital lease	<u>\$ 107,955</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, 2019

**(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 Trustee of the Sweepstakes Trust is comprised of seven individuals: the current AHA President, the current chair of the Sweepstakes Commission, one other member of the Sweepstakes Commission, and four current or former AHA Board of Directors members – who are elected by the AHA 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 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.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**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 *Arabian Horse Life* magazine, marketing collaterals and advertising; as well as sales of sponsorships and advertising in the AHA Magazine and other publications.

**Marketing**

These expenses relate to marketing and promotion 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 designs, produces and distributes the *Arabian Horse Life* magazine. This magazine is produced six times a year and provides the latest information about the Association and the Arabian horse industry. The *Arabian Horse Life* magazine is distributed to the membership of the Association and other interested parties.

**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.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**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:

**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 (see footnote 15) and other activities considered to be of a more unusual or nonrecurring nature.

**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 accounts receivable. As of March 31, 2019, the allowance was \$14,562.

**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.

**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.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**Revenue Recognition**

Registration revenues are recognized when received with an allowance provided for potential cancelled transactions. Life membership revenue is recognized over the expected active membership period which has been determined at ten years. Other membership revenue is recognized over the term of the membership. Convention and national championship events revenue are recognized in the month the convention or event occurs. Other revenue is recognized as earned. As of March 31, 2019, the Association recorded deferred revenue which represents revenue collected during the fiscal year that applies to activity of subsequent years.

**Contributions**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in 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 purpose restricted or perpetual in nature net assets depending on the nature of the restriction. When a restriction expires (that is, when a 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 Combined Statement of Activities as net assets released from restrictions.

**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, 2018, from which the summarized information was derived.

**Evaluation of Subsequent Events**

The Organization has performed an evaluation of subsequent events through October 31, 2019, 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.

**(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, 2019.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

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, 2019, 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 Organization 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 2016, and is no longer subject to audits on its related state return by taxing authorities for years prior to Fiscal Year 2015. 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, 2019 was \$75,640. This reflects the income tax impact of the estimated net operating loss carry-forward in the amount of \$295,121.

**(4) Cash 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Exchange Traded Funds				
Preferred stocks	\$ 1,532,176	\$ -	\$ -	\$ 1,532,176
Large value stocks	1,583,652			1,583,652
Short term bonds	1,054,284			1,054,284
Intermediate term bonds	717,104			717,104
U.S. Federal Bonds	2,672,356	-	-	2,672,356
Guaranteed certificate	15,186			15,186
Total investments at fair market value	<u>\$ 7,574,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>7,574,758</u>
Money Market				<u>2,402,337</u>
Total investments				<u>\$ 9,977,095</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, 2019, the Organization's cash demand deposits held at financial institutions were less than the FDIC's insured limits.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**(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>Cash Investments</u>	<u>Interfund Receivable</u>	<u>Interest</u>	<u>Total</u>
Sweepstakes program	\$ 74,468	\$ 7,794,522	\$ 29,232	\$ -	\$ 7,898,222
Halter Futurity	15,602	656,310	(16,407)	-	655,505
Yearling Jackpot	1	-	16,222	319	16,542
Performance Futurity	-	-	165,228	-	165,228
Total	<u>\$ 90,071</u>	<u>\$ 8,450,832</u>	<u>\$ 194,275</u>	<u>\$ 319</u>	<u>\$ 8,735,497</u>

The net interest earned on the cash 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 cash 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, 2019, 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 \$9,736 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	\$ 301,513	\$ 300,687	\$ 826
Equipment and software	5,367,247	4,886,180	481,067
Films	62,912	62,912	-
Building	1,021,938	797,754	224,184
Building improvements	568,467	278,807	289,660
Land	162,925	-	162,925
Land improvements	14,019	14,019	-
Work In Process	-	-	-
	<u>\$ 7,499,021</u>	<u>\$ 6,340,359</u>	<u>\$ 1,158,662</u>

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

Amounts under capital leases, which are included in equipment and software consist of the following as of March 31, 2019:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment and software	\$ 308,753	\$ 137,627	\$ 171,126

**(8) Deferred Revenue**

Deferred revenue consists of the following as of March 31, 2019:

Membership dues	\$ 822,100
Shows	206,056
Other	24,917
	<u>\$ 1,053,073</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.

**(9) 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	\$ 28,618	\$ 2,062	\$ -	\$ -	\$ 30,680
Accrued liabilities	<u>1,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,350</u>
Prize money program assets currently committed	29,968	2,062	-	-	32,030
Amounts retained for future payout	<u>7,868,254</u>	<u>653,443</u>	<u>16,542</u>	<u>165,228</u>	<u>8,703,467</u>
Obligations to prize money programs	<u>\$ 7,898,222</u>	<u>\$ 655,505</u>	<u>\$ 16,542</u>	<u>\$ 165,228</u>	<u>\$ 8,735,497</u>
Obligation related to Sweepstakes Promissory Notes & Deferred Billing					<u>87,620</u>
					<u>\$ 8,823,117</u>

Sweepstakes accounts payable is primarily due to unclaimed Sweepstakes checks and amounts due for government withholdings as of March 31, 2019. Accrued liabilities are prize money amounts that have been won and are in the process of being paid as of March 31, 2019.

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.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**(10) 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.

**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, 2019, the Education and Evaluation designated funds amounted to \$149,721.

**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, 2019, scoring designated funds amounted to \$24,195.

**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, 2019, amounted to \$95,174.

**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 \$50,148 and related expenses were \$36,013. The Half-Arabian/Anglo-Arabian Promotional Fund as of March 31, 2019, amounted to \$97,088.

**Contingency Fund**

The Board of Directors designated \$505,708 as of March 31, 2019, for future repairs, replacements, or other unexpected expenses.



**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**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, 2019:

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

**Perpetual In Nature**

Perpetual in nature net assets as of March 31, 2019, 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, 2019, are as follows:

Designated funds without donor restrictions	\$ 95,174
Donor restricted funds	-
	<u><u>\$ 95,174</u></u>

**(11) 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 State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA 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 SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. In accordance with SPMIFA, the Association considers the following factors in make a determination to appropriate or accumulate donor-restricted endowment funds:

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

- (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
- (7) The investment policies of the organization

Changes in Endowment Net Assets as of March 31, 2019

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

Underwater Funds

As of March 31, 2019, 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.

**(12) 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 matches up to 1% of participant contributions. Total expenses for this 401(k) plan for the fiscal year ending March 31, 2019, are \$13,176. The Association resumed the employer match contribution on May 1, 2018. 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, 2019, is fully funded.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**(13) Capital Lease Obligations**

The following represent obligations under capital leases for equipment as of March 31, 2019:

Due in monthly installments of principal and interest of \$2,138 through November 2023, interest rate 7.0%, secured by equipment	\$ 121,228
Less: Interest	17,837
Present value of future minimum lease payments	<u>103,391</u>
Less: Current Portion	19,127
Total long term portion	<u><u>\$ 84,264</u></u>

Due in monthly installments of principal and interest of \$2,295 through February 2021, interest rate 7.2%, secured by equipment	\$ 52,495
Less: Interest	3,625
Present value of future minimum lease payments	<u>48,870</u>
Less: Current Portion	24,807
Total long term portion	<u><u>\$ 24,063</u></u>

Future annual maturities of these obligations as of March 31, 2019, are as follows:

2020	\$ 43,934
2021	44,572
2022	21,992
2023	23,582
2024	18,481
	<u><u>\$ 152,561</u></u>

**(14) Operating Lease Commitment**

The Association has entered into leases for storage space, with various lease term expirations through March 2020.

Future minimum rental payments are as follows:

2020	<u>Storage</u>
	<u>\$ 45,421</u>
	<u><u>\$ 45,421</u></u>

Total rent expense for the year ended March 31, 2019, was \$45,783.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**(15) 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, 2019, the Association paid to the Trust \$280,247 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, 2019, the Trust funded promotional activities in the amount of \$0. Since inception, the Association has paid to the Trust \$6,574,895 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, 2019, \$44,258 has been incurred. The Association will incur \$44,258 each year through the fiscal year ending March 31, 2023.

**(16) Expenses**

Total expenses for the year ended March 31, 2019, were as follows:

	<u>Total Expense</u>	<u>Less: Royalty Expense</u>	<u>Total Expense Reported By Function</u>
Program expenses	\$ 7,612,732	\$ (280,247)	\$ 7,332,485
Supporting services	3,083,218	-	3,083,218
Total expenses	<u>\$ 10,695,950</u>	<u>\$ (280,247)</u>	<u>\$ 10,415,703</u>

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, 2019, advertising costs totaled \$30,407.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

**(17) Adoption of Accounting Standards Update 2016-14**

The following financial statement line items for the year ended March 31, 2018, were reclassified as a result of the adoption of FASB Accounting Standards Update No. 2014-16, *Presentation of Financial Statements of Not-For-Profit Entities*.

	As Previously Reported	Adoption of ASU No. 2016-14	As Reclassified
Unrestricted net assets	\$ 1,516,348	\$ (1,516,348)	\$ -
Temporarily restricted net assets	11,449	(11,449)	-
Permanently restricted net assets	53,762	(53,762)	-
Net assets without donor restrictions	-	1,516,348	1,516,348
Net assets with donor restrictions	-	65,211	65,211
Total expenses	<u>\$ 1,581,559</u>	<u>\$ -</u>	<u>\$ 1,581,559</u>

**(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	\$ 1,770,324
Less: those unavailable for general expenditures within one year, due to:	
Designated by the governing board (Note 10)	(930,319)
Donor restricted endowments	(53,762)
Restricted by donor with time or purpose restrictions	<u>(11,449)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 774,794</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) Accounting Standards Updates**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method.

**ARABIAN HORSE ASSOCIATION**  
Notes to Combined Financial Statements  
(continued)

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which deferred the effective date of the new revenue recognition standard for one year. The new standard is effective for the Organization for the year ended March 31, 2020. Early application is permitted for the Organization. The Organization is evaluating the effect that ASU No. 2015-14 will have on its financial statement and related disclosures.

In June 2018, the 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 will determine whether to account for a transfer of assets as an exchange transaction or a contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605, *Not-For-Profit Entities - Revenue Recognition*, while exchange transactions are accounted for under other guidance such as ASC 606, *Revenue from Contracts with Customers*. The guidance also clarifies how entities will determine whether a contribution is conditional. The timing of revenue and expense recognition depends upon whether a contribution is conditional or unconditional. The new standard is effective for the Organization for the year ended March 31, 2020. Early adoption is permitted. The Organization is evaluating the effect that ASU No. 2018-08 will have on its financial statements and related disclosures.

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, 2021. The Organization has not evaluated the impact due to the timing of implementation of this standard.

ARABIAN BREEDERS SWEEPSTAKES TRUST  
Sweepstakes Supplemental Schedule of Financial Position  
As of March 31, 2019 and March 31, 2018

	Balance as of Mar-19	Balance as of Mar-18
<u>ASSETS</u>		
Cash	\$ 74,468	\$ 63,618
Cash Investments	\$ 7,794,522	\$ 7,408,837
Interfund Receivable	\$ 29,232	\$ 128,003
<b>TOTAL ASSETS</b>	<b>\$ 7,898,222</b>	<b>\$ 7,600,458</b>
<u>LIABILITIES</u>		
Accounts Payable (1)	\$ 28,618	\$ 17,851
Accrued Liabilities (2)	1,350	13,004
Prize Money Program Assets Currently Committed	29,968	30,855
Amounts Retained for Future payout	7,868,254	7,569,603
<b>TOTAL LIABILITIES</b>	<b>\$ 7,898,222</b>	<b>\$ 7,600,458</b>

(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, 2019 and March 31, 2018

	Balance as of Mar-19	Balance as of Mar-18
<u>RECEIPTS</u>		
Entries	\$ 906,200	\$ 761,793
Interest		
<u>EXPENDITURES</u>		
Prize Money (3)	607,549	577,158
<b>INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM</b>	<b>\$ 298,651</b>	<b>\$ 184,635</b>
Amounts Retained for Future Payout, Beginning of Period	\$ 7,569,603	\$ 7,384,969
Amounts Retained for Future Payout, End of Period	\$ 7,868,254	\$ 7,569,603

(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, 2019

<u>Description</u>	<u>Maturity Date</u>	<u>Face Value or Cost Basis</u>	<u>Face Yield</u>
Cash	n/a	\$ 74,468	0.00%
Money Market	next day	\$ 1,596,290	0.10%
U.S. Government Bonds:			
FNMA Note	Dec-32	50,000	2.00%
FHLMC Note	Nov-19	300,000	2.00%
FHLMC Note	May-20	75,000	1.70%
FHLMC Note	Jun-20	300,000	1.75%
FHLB Note	Nov-20	200,000	2.00%
FHLB Note	Feb-21	100,000	2.25%
FHLMC Note	Jul-21	300,000	1.38%
FHLB Note	Aug-21	200,000	2.50%
FHLB Note	Apr-22	200,000	1.63%
FHLMC Note	Jul-22	100,000	2.00%
FHLB Note	Aug-22	100,000	1.75%
FHLB Note	Sep-22	100,000	1.75%
FHLMC Note	Oct-22	100,000	2.00%
FHLB Note	Oct-22	150,000	2.02%
FHLMC Note	Dec-22	250,000	2.25%
total bonds		\$ 2,525,000	
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		599,270	
ishares 0-5 year corporate bonds		200,935	
Pimco investment corporate bonds		201,732	
Vanguard mortgage backed bonds		398,756	
total mutual funds		\$ 3,673,232	
<b>Total Cash and Investments</b>		<b>\$ 7,868,990</b>	



ARABIAN HORSE ASSOCIATION  
Halter Futurity Supplemental Schedule of Financial Position  
As of March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>ASSETS</u>		
Cash	\$ 15,602	\$ 16,760
Cash Investments	656,310	665,771
Interfund Receivable	<u>(16,407)</u>	<u>(413)</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 655,505</u></u></b>	<b><u><u>\$ 682,118</u></u></b>
<u>LIABILITIES</u>		
Accrued Liabilities	\$ 2,062	\$ -
Amounts Retained for Future Payout	<u>653,443</u>	<u>682,118</u>
<b>TOTAL LIABILITIES</b>	<b><u><u>\$ 655,505</u></u></b>	<b><u><u>\$ 682,118</u></u></b>

ARABIAN HORSE ASSOCIATION  
Halter Futurity Supplemental Schedule of Activities  
For the periods ended March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>RECEIPTS</u>		
Nominations	\$ 41,910	\$ 45,700
Renominations	67,550	73,320
Late Fees	9,540	14,294
Show fees	<u>7,400</u>	<u>8,800</u>
<b>TOTAL RECEIPTS</b>	<b><u>126,400</u></b>	<b><u>142,114</u></b>
<u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	<u>155,075</u>	<u>145,410</u>
<b>TOTAL EXPENDITURES</b>	<b><u>155,075</u></b>	<b><u>145,410</u></b>
<b>INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM</b>	<b>(28,675)</b>	<b>(3,296)</b>
Amounts Retained for Future Payout, Beginning of Period	<u>682,118</u>	<u>685,414</u>
Amounts Retained for Future Payout, End of Period	<b><u><u>\$ 653,443</u></u></b>	<b><u><u>\$ 682,118</u></u></b>

ARABIAN HORSE ASSOCIATION  
Yearling Jackpot Supplemental Schedule of Financial Position  
As of March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>ASSETS</u>		
Cash & Investments	\$ 1	\$ -
Interfund Receivable	\$ 16,222	\$ 14,926
Accrued Interest	<u>\$ 319</u>	<u>\$ 319</u>
 TOTAL ASSETS	 <u>\$ 16,542</u>	 <u>\$ 15,245</u>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	<u>\$ 16,542</u>	<u>\$ 15,245</u>
 TOTAL LIABILITIES	 <u>\$ 16,542</u>	 <u>\$ 15,245</u>

ARABIAN HORSE ASSOCIATION  
Yearling Jackpot Supplemental Schedule of Activities  
For the periods ended March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>RECEIPTS</u>		
Entries	\$ -	\$ -
Interest	<u>\$ 1,297</u>	<u>\$ 1,264</u>
 TOTAL RECEIPTS	 <u>\$ 1,297</u>	 <u>\$ 1,264</u>
 <u>EXPENDITURES</u>		
Prize Money	<u>\$ -</u>	<u>\$ -</u>
 INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	 \$ 1,297	 \$ 1,264
Amounts Retained for Future Payout, Beginning of Period	<u>\$ 15,245</u>	<u>\$ 13,981</u>
Amounts Retained for Future Payout, End of Period	<u>\$ 16,542</u>	<u>\$ 15,245</u>

ARABIAN HORSE ASSOCIATION  
Performance Futurity Supplemental Schedule of Financial Position  
As of March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>ASSETS</u>		
Cash & Investments	\$ -	\$ -
Interfund Receivable	<u>165,228</u>	<u>159,373</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 165,228</u></u></b>	<b><u><u>\$ 159,373</u></u></b>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	<u>\$ 165,228</u>	<u>\$ 159,373</u>
<b>TOTAL LIABILITIES</b>	<b><u><u>\$ 165,228</u></u></b>	<b><u><u>\$ 159,373</u></u></b>

ARABIAN HORSE ASSOCIATION  
Performance Futurity Supplemental Schedule of Activities  
For the periods ended March 31, 2019 and March 31, 2018

	<u>Balance as of Mar-19</u>	<u>Balance as of Mar-18</u>
<u>RECEIPTS</u>		
Entries	\$ 330,900	\$ 333,900
Late Fees & Interest	<u>15,750</u>	<u>10,750</u>
<b>TOTAL RECEIPTS</b>	<b><u>346,650</u></b>	<b><u>344,650</u></b>
 <u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	<u>340,795</u>	<u>349,450</u>
<b>TOTAL EXPENDITURES</b>	<b><u>340,795</u></b>	<b><u>349,450</u></b>
 <b>INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM</b>	 5,855	 (4,800)
Amounts Retained for Future Payout, Beginning of Period	<u>159,373</u>	<u>164,173</u>
Amounts Retained for Future Payout, End of Period	<b><u><u>\$ 165,228</u></u></b>	<b><u><u>\$ 159,373</u></u></b>