

ARABIAN HORSE ASSOCIATION
AND ARABIAN BREEDERS SWEEPSTAKES TRUST

Combined Financial Statements As Of March 31, 2023
(With Summarized Financial Information For
The Year Ended March 31, 2022)

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:

Opinion

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, 2023, 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of March 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the combined Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Independent Auditors' Report (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the unsolicited financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Independent Auditors' Report (Continued)

Report on Summarized Comparative Information

We have previously audited the Organization's March 31, 2022 financial statements, and our report dated May 17, 2024, 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, 2022, 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

November 14, 2024

ARABIAN HORSE ASSOCIATION
Combined Statement of Financial Position
As of March 31, 2023
(with Summarized Financial Information as of March 31, 2022)

	<u>ASSETS</u>							Current Year Total	Prior Year Total
	Net Assets Without Donor Restrictions						Total Net Assets With Donor Restrictions		
	Operations	Prize Money Programs	Total	Purpose Restrictions	Perpetual in Nature	Total			
Assets:									
Cash and cash equivalents (Note 4)	\$ 2,785,364	\$ 834,839	\$ 3,620,203	\$ 6,270	\$ -	\$ 6,270	\$ 3,626,473	\$ 3,963,216	
Investments (Note 4)	2,600,687	9,356,741	11,957,428	(466)	61,854	61,388	12,018,816	10,921,823	
Receivables -									
Interest	8,595	-	8,595	-	-	-	8,595	-	
Trade, net of allowance	260,096	-	260,096	-	-	-	260,096	178,353	
Unconditional promises to give, net of allowance	0	-	-	-	-	-	-	-	
Notes receivable (Note 6)	46,870	-	46,870	-	-	-	46,870	44,145	
Inventory	311,429	-	311,429	-	-	-	311,429	56,719	
Prepayments and other assets	131,038	-	131,038	-	-	-	131,038	183,660	
Deferred tax asset, net of allowance (Note 3)	0	-	-	-	-	-	-	-	
Interfund receivable/(payable)	354,673	(352,226)	2,447	5,645	(8,092)	(2,447)	-	-	
Property and equipment, net of accumulated depreciation (Note 7)	<u>1,659,228</u>	<u>-</u>	<u>1,659,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,659,228</u>	<u>677,776</u>	
TOTAL ASSETS	<u>\$ 8,157,980</u>	<u>\$ 9,839,354</u>	<u>\$ 17,997,334</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 65,211</u>	<u>\$ 18,062,545</u>	<u>\$ 16,025,692</u>	
LIABILITIES AND NET ASSETS									
Liabilities:									
Accounts payable	\$ 740,555	\$ 103,173	\$ 843,728	\$ -	\$ -	\$ -	\$ 843,728	\$ 626,551	
Accrued liabilities	241,519	1,738	243,257	-	-	-	243,257	198,786	
Refundable advance	100,000	-	100,000	-	-	-	100,000	-	
Refundable advance - PPP (Note 8)	-	-	-	-	-	-	-	457,150	
Deferred revenues (Note 9)	1,001,115	-	1,001,115	-	-	-	1,001,115	952,403	
Finance lease liabilities (Note 14)	85,293	-	85,293	-	-	-	85,293	91,443	
Obligations to prize programs (Note 10)	46,870	9,734,443	9,781,313	-	-	-	9,781,313	9,844,366	
Total Liabilities	<u>2,215,352</u>	<u>9,839,354</u>	<u>12,054,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,054,706</u>	<u>12,170,699</u>	
Commitments & Contingencies (Note 15)									
Net Assets: (Note 11)									
Net assets without donor restrictions									
Undesignated	4,579,343	-	4,579,343	-	-	-	4,579,343	2,592,631	
Designated	1,363,285	-	1,363,285	-	-	-	1,363,285	1,197,151	
Total net assets without donor restrictions	5,942,628	-	5,942,628	-	-	-	5,942,628	3,789,782	
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>5,942,628</u>	<u>-</u>	<u>5,942,628</u>	<u>11,449</u>	<u>53,762</u>	<u>65,211</u>	<u>6,007,839</u>	<u>3,854,993</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,157,980</u>	<u>\$ 9,839,354</u>	<u>\$ 17,997,334</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 65,211</u>	<u>\$ 18,062,545</u>	<u>\$ 16,025,692</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, 2023
 (with Summarized Financial Information for the year ended March 31, 2022)

	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	\$ 7,053,919	\$ -	\$ -	\$ 7,053,919	\$ 7,290,636
Registrations	727,239	-	-	727,239	728,815
Memberships dues	863,205	-	-	863,205	837,715
Service fees	1,125,277	-	-	1,125,277	1,206,954
Sponsorship/donations	98,377	-	-	98,377	-
Merchandising	121,447	-	-	121,447	122,672
Net investment return	(337,741)	-	-	(337,741)	130,459
Fund raising	17,616	-	-	17,616	7,083
Government grant	457,150	-	-	457,150	503,019
Gain on sale of building	1,727,818	-	-	1,727,818	-
Other	563,862	-	-	563,862	222,728
Total Revenue and Other Support	<u>12,418,169</u>	<u>-</u>	<u>-</u>	<u>12,418,169</u>	<u>11,050,081</u>
EXPENSES:					
Program Services -					
Events and shows	5,769,288	-	-	5,769,288	5,349,644
Sales and marketing	160,113	-	-	160,113	174,969
Member services	533,519	-	-	533,519	472,991
Registry services	579,385	-	-	579,385	561,757
Judges programs	343,109	-	-	343,109	247,531
Total Program Expenses	<u>7,385,414</u>	<u>-</u>	<u>-</u>	<u>7,385,414</u>	<u>6,806,892</u>
Supporting Services -					
General administration	2,491,474	-	-	2,491,474	2,266,971
Membership development	171,435	-	-	171,435	152,614
Total Supporting Services Expenses	<u>2,662,909</u>	<u>-</u>	<u>-</u>	<u>2,662,909</u>	<u>2,419,585</u>
Total Expenses	<u>10,048,323</u>	<u>-</u>	<u>-</u>	<u>10,048,323</u>	<u>9,226,477</u>
Changes in Net Assets From Operations	2,369,846	-	-	2,369,846	1,823,604
Non-Operating Expenses:					
Royalty expense (Note 15)	(217,000)	-	-	(217,000)	(239,373)
CHANGES IN NET ASSETS	2,152,846	-	-	2,152,846	1,584,231
Net Assets, Beginning of Year	3,789,782	11,449	53,762	3,854,993	2,270,762
Net Assets, End of Year	<u>\$ 5,942,628</u>	<u>\$ 11,449</u>	<u>\$ 53,762</u>	<u>\$ 6,007,839</u>	<u>\$ 3,854,993</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, 2023
 (with Summarized Financial Information for the year ended March 31, 2022)

	<u>Events & Shows</u>	<u>Sales & Marketing</u>	<u>Member Services</u>	<u>Registry Services</u>	<u>Judges Programs</u>	<u>General Administration</u>	<u>Membership Development</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
EXPENSES:									
Salaries and benefits	\$ 530,521	\$ -	\$ 323,158	\$ 327,081	\$ 147,565	\$ 1,508,828	\$ 74,060	\$ 2,911,213	\$ 2,726,905
Travel, lodging, and meals	49,412	11,806	2,366	40,242	66,970	63,496	11,810	246,102	122,857
Facilities costs	1,355,806	-	-	-	-	-	-	1,355,806	1,275,887
Production costs	1,407,854	-	-	-	-	385	-	1,408,239	1,341,220
Personnel & volunteer costs	1,182,351	-	-	-	-	-	-	1,182,351	1,126,782
Other program costs	821,471	-	-	-	-	-	-	821,471	677,376
Services and professional fees	2,067	-	1,875	55,480	-	378,979	-	438,401	377,149
Publications, postage, & printing	8,440	21,505	14,704	31,641	5,278	13,807	31,689	127,064	106,393
Promotions and outreach	45,296	51,041	64,664	-	3,366	4,505	6,672	175,544	202,517
Office and occupancy costs	137,229	46,440	59,045	54,415	85,630	245,711	13,691	642,161	357,824
Business systems & communications	36,734	16,922	29,387	33,670	15,664	117,145	7,587	257,109	266,492
Bank service & merchant fees	169,633	3,409	20,341	18,877	9,646	23,993	21,431	267,330	257,290
Depreciation	22,474	8,990	17,979	17,979	8,990	67,422	4,495	148,329	204,252
Taxes and fees	-	-	-	-	-	67,203	-	67,203	183,533
Total Functional Expenses	<u>\$ 5,769,288</u>	<u>\$ 160,113</u>	<u>\$ 533,519</u>	<u>\$ 579,385</u>	<u>\$ 343,109</u>	<u>\$ 2,491,474</u>	<u>\$ 171,435</u>	<u>\$ 10,048,323</u>	<u>\$ 9,226,477</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, 2023
 (with Summarized Financial Information for the year ended March 31, 2022)

	<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	\$ 2,152,846	\$ -	\$ 2,152,846	\$ -	\$ -	\$ 2,152,846	\$ 1,584,231
Adjustments to reconcile Change in Net Assets to net cash provided by operating activities:							
Depreciation	146,032	-	146,032	-	-	146,032	204,253
Forgiveness of PPP	(457,150)	-	(457,150)	-	-	(457,150)	(503,019)
(Gain) on sale of property and equipment	(1,727,818)	-	(1,727,818)	-	-	(1,727,818)	-
Allowance for doubtful accounts	30,000	-	30,000	-	-	30,000	-
Allowance on deferred tax asset	-	-	-	-	-	-	141,779
(Gain)/loss on investment fair market	622,475	-	622,475	-	-	622,475	28,732
Decrease (increase) in receivables	(120,338)	-	(120,338)	-	-	(120,338)	33,844
Decrease (increase) in notes receivable	(2,725)	-	(2,725)	-	-	(2,725)	59,463
Decrease (increase) in inventories	(254,710)	-	(254,710)	-	-	(254,710)	28,204
Decrease (increase) in prepayments	52,622	-	52,622	-	-	52,622	(55,548)
Increase (decrease) in accounts payable	188,865	28,312	217,177	-	-	217,177	208,601
Increase/(decrease) in interfund payable	(260,518)	258,971	(1,547)	(125)	1,672	-	(806)
Increase (decrease) in accrued liabilities	43,108	1,363	44,471	-	-	44,471	(637)
Increase (decrease) in refundable advance	100,000	-	100,000	-	-	100,000	(190,000)
Increase (decrease) in deferred revenue	48,712	-	48,712	-	-	48,712	41,107
Increase (decrease) in lease liabilities	(12,929)	-	(12,929)	-	-	(12,929)	-
Increase (decrease) in obligations to prize money programs	2,725	(65,778)	(63,053)	-	-	(63,053)	(35,135)
Net cash provided by (used in) operating activities	<u>551,197</u>	<u>222,868</u>	<u>774,065</u>	<u>(125)</u>	<u>1,672</u>	<u>775,612</u>	<u>1,545,069</u>
Cash flows from investing activities:							
Purchases of property and equipment	(1,522,424)	-	(1,522,424)	-	-	(1,522,424)	(59,711)
Proceeds from the sale of property	2,160,000	-	2,160,000	-	-	2,160,000	-
Net investment activity	(1,478,579)	(239,342)	(1,717,921)	125	(1,672)	(1,719,468)	(448,443)
Net cash provided by (used in) investing activities	<u>(841,003)</u>	<u>(239,342)</u>	<u>(1,080,345)</u>	<u>125</u>	<u>(1,672)</u>	<u>(1,081,892)</u>	<u>(508,154)</u>
Cash flows from financing activities:							
Proceeds from refundable advance - PPP	-	-	-	-	-	-	457,150
Payments on finance lease liabilities	(30,463)	-	(30,463)	-	-	(30,463)	(45,620)
Net cash provided by (used in) financing activities	<u>(30,463)</u>	<u>-</u>	<u>(30,463)</u>	<u>-</u>	<u>-</u>	<u>(30,463)</u>	<u>411,530</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(320,269)	(16,474)	(336,743)	-	-	(336,743)	1,448,445
Cash and Cash Equivalents at Beginning of Year	<u>3,105,633</u>	<u>851,313</u>	<u>3,956,946</u>	<u>6,270</u>	<u>-</u>	<u>3,963,216</u>	<u>2,514,771</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,785,364</u>	<u>\$ 834,839</u>	<u>\$ 3,620,203</u>	<u>\$ 6,270</u>	<u>\$ -</u>	<u>\$ 3,626,473</u>	<u>\$ 3,963,216</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, 2023

(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, Distance Nationals Championship, and Ranch Horse 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.

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.

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.

Recently Adopted Accounting Standard

In 2023, the Association adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which required lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Association elected not to restate the comparative period. They also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Association recognized a right-of-use asset and a lease liability of \$116,421 in their statement of financial position as of April 1, 2022. The adoption did not result in a significant effect on amounts reported on the statement of activities for the year ended March 31, 2023.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and with donor restrictions as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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, and those differences could be material.

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.

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

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

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

Treasury bills: The fair value of the treasury bills is based on amortized cost or original cost plus accrued interest.

Guaranteed certificate: Valued at amortized cost or original cost plus accrued interest.

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, 2023, the allowance was \$44,367.

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 and 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.

Leases

The Association determines if an arrangement is or contains a lease at inception. Leases are included in property and equipment and lease liabilities on the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Association does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

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 or nonrecurring nature.

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 and over time 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) and over time for the Data Source subscriptions. Other revenue is recognized at a point in time as services are performed. Payments are due upon invoicing. Total service fee and merchandising revenues recognized at a point in time was \$500,456 and over time was \$746,268.

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 March 31, 2023, total unconditional promises to give was \$410,000 and it has a full allowance against it.

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, 2023, contributions approximating \$200,000, 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, 2023, the Association received advances on conditional promises to give of \$100,000 which is recognized in the statement of financial position as refundable advances.

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.

Comparative 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, 2022, from which the summarized information was derived.

Evaluation of Subsequent Events

The Organization has performed an evaluation of subsequent events through November 14, 2024, 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) Income Taxes

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, 2023.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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 2021 and is no longer subject to audits on its related state return by taxing authorities for years prior to Fiscal Year 2020. 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, 2023, was \$141,779. This reflects the income tax impact of the estimated net operating loss carry-forward in the amount of \$585,180 of which \$295,121 expires in various fiscal years ending from 2028-2035 and \$290,059 can be used indefinitely. The deferred tax asset has been fully allowed for as the Organization does not expect to utilize it. During the year ended March 31, 2023, the valuation allowance was unchanged.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(4) Investments and Concentration of Credit Risk

The following table presents the Organization's investments as of March 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Exchange Traded Funds				
Preferred stocks	\$ 1,308,742	\$ -	\$ -	\$ 1,308,742
Large value stocks	1,118,832	-	-	1,118,832
Large blend stocks	927,268	-	-	927,268
Short term bonds	1,958,007	-	-	1,958,007
Intermediate term bonds	683,820	-	-	683,820
Treasury bonds	861,198	-	-	861,198
Corporate bonds	910,244	-	-	910,244
U.S. Treasury Bills	3,001,792	-	-	3,001,792
Guaranteed certificate	15,186	-	-	15,186
Total investments in fair value hierarchy table	<u>\$ 10,785,089</u>	<u>\$ -</u>	<u>\$ -</u>	10,785,089
Money Market				1,233,727
Total investments, at fair value				<u>\$ 12,018,816</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, 2023, the Organization's cash demand deposits held at financial institutions did exceed the FDIC's insured limits by approximately \$2,995,000. Additionally, as of March 31, 2023, the Organization's cash demand deposits held at financial institutions did exceed the Canadian Deposit Insurance Corporation's insured limits by approximately \$113,000.

As of March 31, 2023, 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>Cash Investments</u>	<u>Interfund Receivable</u>	<u>Total</u>
Sweepstakes program	\$ 810,125	\$ 8,684,973	\$ (463,376)	\$ 9,031,722
Halter Futurity	24,714	671,768	(70,127)	626,355
Yearling Jackpot	-	-	19,850	19,850
Performance Futurity	-	-	161,427	161,427
Total	<u>\$ 834,839</u>	<u>\$ 9,356,741</u>	<u>\$ (352,226)</u>	<u>\$ 9,839,354</u>

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

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 and dividends earned on 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, 2023, 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 \$4,905 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 & Amortization</u>	<u>Net Book Value</u>
Furniture	\$ 386,649	\$ 251,641	\$ 135,008
Equipment and software	4,570,932	4,454,135	116,797
Building	1,161,000	19,283	1,141,717
Building improvements	49,921	665	49,256
Land	129,000	-	129,000
Finance lease right-of-use asset	140,817	53,367	87,450
	<u>\$ 6,438,319</u>	<u>\$ 4,779,091</u>	<u>\$ 1,659,228</u>

(8) Refundable Advance – Paycheck Protection Program

In May 2021, 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 \$457,150. The advance was forgiven during the year ended March 31, 2023, and is reflected in government grants on the statement of activities.

(9) Deferred Revenue

Deferred revenue consists of the following as of March 31, 2023:

Membership dues	\$ 808,150
Shows	139,362
Other	53,603
	<u>\$ 1,001,115</u>

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

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	\$ 90,025	\$ 13,148	\$ -	\$ -	\$ 103,173
Accrued liabilities	<u>1,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,738</u>
Prize money program assets currently committed	91,763	13,148	-	-	104,911
Amounts retained for future payout	<u>8,939,959</u>	<u>613,207</u>	<u>19,850</u>	<u>161,427</u>	<u>9,734,443</u>
Obligations to prize money programs	<u>\$ 9,031,722</u>	<u>\$ 626,355</u>	<u>\$ 19,850</u>	<u>\$ 161,427</u>	<u>9,839,354</u>
Obligation related to Sweepstakes Promissory Notes & Deferred Billing, net of allowance					<u>46,870</u>
					<u>\$ 9,886,224</u>

Sweepstakes accounts payable is primarily due to unclaimed Sweepstakes checks and amounts due for government withholdings as of March 31, 2023. Accrued liabilities are prize money amounts that have been won and are in the process of being paid as of March 31, 2023.

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.

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, 2023, the Education and Evaluation designated funds amounted to \$324,184.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

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, 2023, scoring designated funds amounted to \$81,033.

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. The Legal Defense Fund without donor restrictions funds as of March 31, 2023, amounted to \$160,985.

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 \$47,314 and related expenses were \$15,246. The Half-Arabian/Anglo-Arabian Promotional Fund as of March 31, 2023, amounted to \$249,337.

Contingency Fund

The Board of Directors designated \$547,746 as of March 31, 2023, 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. Donor restricted net assets consist of the following as of March 31, 2023:

Purpose Restrictions -	
Scholarships	\$ 3,034
Patrick Swayze fund	8,415
Total Purpose Restrictions	<u>11,449</u>
Perpetual in Nature - Yearling Jackpot	<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, 2023, consisted of the Yearling Jackpot with earnings to be used for future prize payouts.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

(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, 2023

	<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.

Underwater Funds

As of March 31, 2023, 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.

ARABIAN HORSE ASSOCIATION
Notes to Combined Financial Statements
(continued)

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 had an employer match contribution up to 1% of the participant contributions. Total expenses for this 401(k) plan for the fiscal year ending March 31, 2023, was \$15,432. 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, 2023, is fully funded.

(14) Leases

The Association evaluated current contracts to determine which met the criteria of a lease. The ROU asset represents the Association's right to use the underlying asset for the lease term, and the lease liability represents the Association's obligation to make lease payments arising from the lease. The ROU asset and lease liability, all of which arise from finance leases, were calculated based on the present value of the future minimum lease payments over the lease term. The Association made an accounting policy election to use a risk-free rate in lieu of its current incremental borrowing rate to discount future lease payments. The weighted average discount rate applied to calculate lease liabilities as of March 31, 2023, was 4.0%.

The Association's finance leases consist of copiers (commenced in January 2023 and ends in December 2027) and a backup recovery appliance (commenced in December 2020 and ends in 2024). For the year ended March 31, 2023, total finance lease cost was \$30,667 which includes \$2,288 in interest and \$28,379 in amortization. As of March 31, 2023, the weighted-average remaining lease term for the Association's operating lease was 5.26 years.

Cash paid for the operating lease for the year ended March 31, 2023, was \$30,463. There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 2.

Future maturities of lease liabilities are presented in the following table for the fiscal years ending March 31:

2024	\$ 39,188
2025	14,611
2026	14,611
2027	14,611
2028	14,611
Total lease payments	<u>97,632</u>
Less present value discount	<u>(12,339)</u>
Total lease obligations	<u><u>\$ 85,293</u></u>

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, 2023, the Association paid to the Trust \$217,000 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, 2023, the Trust funded promotional activities in the amount of \$0. Since inception, the Association has paid to the Trust \$7,549,599 in royalty and the Trust has funded Market Development & Promotion activities within the Association in the amount of \$1,899,786.

(16) Expenses

Total expenses for the year ended March 31, 2023, were as follows:

	<u>Total Expense</u>	<u>Less: Royalty Expense</u>	<u>Total Expense Reported By Function</u>
Program expenses	\$ 7,602,414	\$ (217,000)	\$ 7,385,414
Supporting services	2,662,909	-	2,662,909
Total expenses	<u>\$ 10,265,323</u>	<u>\$ (217,000)</u>	<u>\$ 10,048,323</u>

(17) 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	\$ 5,654,742
Less: those unavailable for general expenditures within one year, due to:	
Designated by the governing board (Note 11)	<u>(1,363,285)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,291,457</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.

ARABIAN BREEDERS SWEEPSTAKES TRUST
Sweepstakes Supplemental Schedule of Financial Position
As of March 31, 2023 and March 31, 2022

	Balance as of Mar-23	Balance as of Mar-22
<u>ASSETS</u>		
Cash	\$ 810,125	\$ 843,452
Cash Investments	8,684,973	8,464,836
Interfund Receivable	(463,376)	(231,958)
TOTAL ASSETS	\$ 9,031,722	\$ 9,076,330
<u>LIABILITIES</u>		
Accounts Payable (1)	\$ 90,025	\$ 70,121
Accrued Liabilities (2)	1,738	375
Prize Money Program Assets Currently Committed	91,763	70,496
Amounts Retained for Future payout	8,939,959	9,005,834
TOTAL LIABILITIES	\$ 9,031,722	\$ 9,076,330

(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, 2023 and March 31, 2022

	Balance as of Mar-23	Balance as of Mar-22
<u>RECEIPTS</u>		
Entries	\$ 739,627	\$ 858,297
Interest		
<u>EXPENDITURES</u>		
Prize Money (3)	805,502	839,294
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	(65,875)	19,003
Amounts Retained for Future Payout, Beginning of Period	9,005,834	8,986,831
Amounts Retained for Future Payout, End of Period	\$ 8,939,959	\$ 9,005,834

(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, 2023

<u>Description</u>	<u>Maturity Date</u>	<u>Face Value or Cost Basis</u>	<u>Face Yield</u>
Cash	n/a	\$ 810,125	0.00%
Money Market	next day	\$ 930,083	0.20%
U. S. Treasuries:			
\$200,000 T-bill		198,633	0.00%
\$200,000 T-bill		197,659	0.00%
\$200,000 T-bill		197,824	0.00%
\$200,000 T-bill		196,956	0.00%
\$200,000 T-bill		197,098	0.00%
\$200,000 T-bill		195,123	0.00%
\$200,000 T-bill		195,536	0.00%
\$200,000 T-note		190,476	0.25%
Total treasuries		<u>\$ 1,569,305</u>	
Exchange Traded 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		750,624	
ishares treasury inflation protected bonds		853,201	
ishares 0-5 year corporate bonds		804,399	
Pimco investment corporate bonds		805,548	
Vanguard mortgage backed bonds		699,274	
Total mutual funds		<u>\$ 6,185,585</u>	
Total Cash and Investments		<u>\$ 9,495,098</u>	

ARABIAN HORSE ASSOCIATION
Halter Futurity Supplemental Schedule of Financial Position
As of March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>ASSETS</u>		
Cash	\$ 24,714	\$ 7,861
Cash Investments	671,768	652,563
Interfund Receivable	<u>(70,127)</u>	<u>(45,676)</u>
TOTAL ASSETS	<u>\$ 626,355</u>	<u>\$ 614,748</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 13,148	\$ 4,840
Amounts Retained for Future Payout	<u>613,207</u>	<u>609,908</u>
TOTAL LIABILITIES	<u>\$ 626,355</u>	<u>\$ 614,748</u>

ARABIAN HORSE ASSOCIATION
Halter Futurity Supplemental Schedule of Activities
For the periods ended March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>RECEIPTS</u>		
Nominations	\$ 34,470	\$ 45,301
Renominations	65,135	59,605
Late Fees	25,750	20,100
Show fees	<u>9,400</u>	<u>8,400</u>
TOTAL RECEIPTS	<u>134,755</u>	<u>133,406</u>
<u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	<u>131,456</u>	<u>137,847</u>
TOTAL EXPENDITURES	<u>131,456</u>	<u>137,847</u>
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	3,299	(4,441)
Amounts Retained for Future Payout, Beginning of Period	<u>609,908</u>	<u>614,349</u>
Amounts Retained for Future Payout, End of Period	<u>\$ 613,207</u>	<u>\$ 609,908</u>

ARABIAN HORSE ASSOCIATION
Yearling Jackpot Supplemental Schedule of Financial Position
As of March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>ASSETS</u>		
Cash & Investments	\$ -	\$ -
Interfund Receivable	19,850	18,053
Accrued Interest	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 19,850</u>	<u>\$ 18,053</u>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	<u>19,850</u>	<u>18,053</u>
TOTAL LIABILITIES	<u>\$ 19,850</u>	<u>\$ 18,053</u>

ARABIAN HORSE ASSOCIATION
Yearling Jackpot Supplemental Schedule of Activities
For the periods ended March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>RECEIPTS</u>		
Entries	\$ -	\$ -
Interest	<u>1,797</u>	<u>528</u>
TOTAL RECEIPTS	<u>1,797</u>	<u>528</u>
 <u>EXPENDITURES</u>		
Prize Money	<u>-</u>	<u>-</u>
INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	1,797	528
Amounts Retained for Future Payout, Beginning of Period	<u>18,053</u>	<u>17,525</u>
Amounts Retained for Future Payout, End of Period	<u>\$ 19,850</u>	<u>\$ 18,053</u>

ARABIAN HORSE ASSOCIATION
Performance Futurity Supplemental Schedule of Financial Position
As of March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>ASSETS</u>		
Cash & Investments	\$ -	\$ -
Interfund Receivable	<u>161,427</u>	<u>166,326</u>
TOTAL ASSETS	<u><u>\$ 161,427</u></u>	<u><u>\$ 166,326</u></u>
 <u>LIABILITIES</u>		
Amounts Retained for Future Payout	<u>\$ 161,427</u>	<u>\$ 166,326</u>
TOTAL LIABILITIES	<u><u>\$ 161,427</u></u>	<u><u>\$ 166,326</u></u>

ARABIAN HORSE ASSOCIATION
Performance Futurity Supplemental Schedule of Activities
For the periods ended March 31, 2023 and March 31, 2022

	<u>Balance as of Mar-23</u>	<u>Balance as of Mar-22</u>
<u>RECEIPTS</u>		
Entries	\$ 361,801	\$ 339,700
Late Fees & Interest	<u>24,250</u>	<u>14,000</u>
TOTAL RECEIPTS	<u><u>386,051</u></u>	<u><u>353,700</u></u>
 <u>EXPENDITURES</u>		
Trophies and awards	-	-
Prize Money	<u>390,950</u>	<u>348,800</u>
TOTAL EXPENDITURES	<u><u>390,950</u></u>	<u><u>348,800</u></u>
 INCREASE/(DECREASE) IN ASSETS HELD FOR THE BENEFIT OF PRIZE MONEY PROGRAM	 (4,899)	 4,900
Amounts Retained for Future Payout, Beginning of Period	<u>166,326</u>	<u>161,426</u>
Amounts Retained for Future Payout, End of Period	<u><u>\$ 161,427</u></u>	<u><u>\$ 166,326</u></u>