

**NATIONAL SNAFFLE BIT ASSOCIATION, NATIONAL SNAFFLE BIT
FOUNDATION AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT AND ACCOUNTANTS' REVIEW REPORT

Boards of Directors
National Snaffle Bit Association, National Snaffle Bit Foundation and
National Open Horse Show Association
Gurnee, Illinois

Audit Opinion

We have audited the accompanying financial statements of NATIONAL SNAFFLE BIT FOUNDATION (an Illinois nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related 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 financial statements referred to above present fairly, in all material respects, the financial position of NATIONAL SNAFFLE BIT FOUNDATION as of December 31, 2022, and the changes in its net assets and its 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 Financial Statements section of our report. We are required to be independent of NATIONAL SNAFFLE BIT FOUNDATION and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NATIONAL SNAFFLE BIT FOUNDATION's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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, including omissions, 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 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 NATIONAL SNAFFLE BIT FOUNDATION'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NATIONAL SNAFFLE BIT FOUNDATION's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with 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.

Review Report

Additionally we have reviewed the accompanying consolidated financial statements of NATIONAL SNAFFLE BIT ASSOCIATION (a Georgia not-for-profit corporation), as of and for the year ended December 31, 2022 and NATIONAL OPEN HORSE SHOW ASSOCIATION as of and for the years ended December 31, 2022, which comprise the statement of financial position and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of NATIONAL SNAFFLE BIT ASSOCIATION and NATIONAL OPEN HORSE SHOW ASSOCIATION and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Warady & Davis LLP

March 27, 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2022

	National Snaffle Bit Association (Reviewed)	National Open Horse Show Association (Reviewed)	National Snaffle Bit Foundation (Audited)	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 2,094,558	\$ 45,063	\$ 487,755	\$ —	\$ 2,627,376
Investments	2,003,168	—	541,425	—	2,544,593
Certificates of Deposit	508,191	—	—	—	508,191
Accounts Receivable	11,056	—	—	—	11,056
Due from Affiliate	—	—	35,161	(35,161)	—
Prepaid Expenses	71,133	—	—	—	71,133
Total Current Assets	<u>4,688,106</u>	<u>45,063</u>	<u>1,064,341</u>	<u>(35,161)</u>	<u>5,762,349</u>
PROPERTY AND EQUIPMENT					
Land	105,244	—	—	—	105,244
Building and Building Improvements	990,725	—	—	—	990,725
Office and Computer Equipment	140,664	—	—	—	140,664
Computer Software	201,671	—	—	—	201,671
Trailers	13,462	—	—	—	13,462
Furniture and Fixtures	97,307	—	—	—	97,307
	<u>1,549,073</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,549,073</u>
Less Accumulated Depreciation and Amortization	<u>373,189</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>373,189</u>
	<u>1,175,884</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,175,884</u>
	<u>\$ 5,863,990</u>	<u>\$ 45,063</u>	<u>\$ 1,064,341</u>	<u>\$ (35,161)</u>	<u>\$ 6,938,233</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Due to Affiliate	\$ 7,145	\$ 28,016	\$ —	\$ (35,161)	\$ —
Accrued Liabilities	216,216	—	—	—	216,216
Smart Point Liability	52,832	—	—	—	52,832
Deferred Revenue	564,683	—	—	—	564,683
Security Deposit	2,550	—	—	—	2,550
Total Current Liabilities	<u>843,426</u>	<u>28,016</u>	<u>—</u>	<u>(35,161)</u>	<u>836,281</u>
LONG-TERM LIABILITIES					
Accrued Liabilities	105,488	—	—	—	105,488
Smart Point Liability	214,020	—	—	—	214,020
Deferred Revenue	1,298,900	—	—	—	1,298,900
Total Long-Term Liabilities	<u>1,618,408</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,618,408</u>
Total Liabilities	<u>2,461,834</u>	<u>28,016</u>	<u>—</u>	<u>(35,161)</u>	<u>2,454,689</u>
NET ASSETS					
Net Assets Without Donor Restrictions					
Undesignated	3,402,156	17,047	362,091	—	3,781,294
Net Assets With Donor Restrictions	—	—	702,250	—	702,250
	<u>3,402,156</u>	<u>17,047</u>	<u>1,064,341</u>	<u>—</u>	<u>4,483,544</u>
	<u>\$ 5,863,990</u>	<u>\$ 45,063</u>	<u>\$ 1,064,341</u>	<u>\$ (35,161)</u>	<u>\$ 6,938,233</u>

See accompanying notes and
auditors'/accountants' report.

NATIONAL SNAFFLE BIT ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

	National Snaffle Bit Association (Reviewed)	National Open Horse Show Association (Reviewed)	Foundation (Audited)		Total	Total
			Without Donor Restrictions	With Donor Restrictions		
REVENUES						
Support						
Contributions	\$ 290,100	\$ —	\$ 107,070	\$ 576,453	\$ 683,523	\$ 973,623
Special Event - Online Auction and Raffle	—	—	40,593	—	40,593	40,593
Donated Goods and Services	—	—	6,550	—	6,550	6,550
Release of Restrictions	—	—	324,008	(324,008)	—	—
	<u>290,100</u>	<u>—</u>	<u>478,221</u>	<u>252,445</u>	<u>730,666</u>	<u>1,020,766</u>
Program						
BCF/World Show	2,959,169	77,436	—	—	—	3,036,605
BCF and Color BCF Added Money	359,760	—	—	—	—	359,760
Membership	905,842	10,910	—	—	—	916,752
Credit Card Surcharges	175,376	—	—	—	—	175,376
Merchandise Sales	26,260	—	—	—	—	26,260
Stallion Incentive Fund	148,180	—	—	—	—	148,180
Yearling Sales	160,655	—	—	—	—	160,655
Judges Program	5,000	—	—	—	—	5,000
Licensing Program	410,545	—	—	—	—	410,545
Magazines	470,115	—	—	—	—	470,115
Smart Point	20,750	—	—	—	—	20,750
Other Shows	500,165	—	—	—	—	500,165
Year-End Award Banquet	6,587	—	—	—	—	6,587
	<u>6,148,404</u>	<u>88,346</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,236,750</u>
Other Revenues						
Government Grant - Payroll Protection Program Loan Forgiveness						
Rental Income	32,460	—	—	—	—	32,460
Interest Income	7,461	—	656	—	656	8,117
Miscellaneous Revenue	123,678	205	—	—	—	123,883
Unrealized Gains	886	—	954	—	954	1,840
	<u>164,485</u>	<u>205</u>	<u>1,610</u>	<u>—</u>	<u>1,610</u>	<u>166,300</u>
	<u>6,602,989</u>	<u>88,551</u>	<u>479,831</u>	<u>252,445</u>	<u>732,276</u>	<u>7,423,816</u>
EXPENSES						
Program Services	4,939,861	67,532	261,853	—	261,853	5,269,246
Supporting Services						
Management and General	1,185,272	7,478	108,125	—	108,125	1,300,875
Fundraising	—	—	19,000	—	19,000	19,000
Total Expenses	<u>6,125,133</u>	<u>75,010</u>	<u>388,978</u>	<u>—</u>	<u>388,978</u>	<u>6,589,121</u>
CHANGE IN NET ASSETS	477,856	13,541	90,853	252,445	343,298	834,695
Net Assets, Beginning	2,924,300	3,506	271,238	449,805	721,043	3,648,849
NET ASSETS, ENDING	<u>\$ 3,402,156</u>	<u>\$ 17,047</u>	<u>\$ 362,091</u>	<u>\$ 702,250</u>	<u>\$ 1,064,341</u>	<u>\$ 4,483,544</u>

See accompanying notes and auditors'/accountants' report.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	Program Services							Supporting Services							Total	
	BCF/ World Show	Other Shows	Sales	Stallion Incentive Fund	Other Programs	Publication	(Reviewed) Total Association Program Services	(Reviewed) NOSHA	(Audited) Foundation	Total Program Services	Association Management and General	NOSHA Management and General	(Audited) Foundation Management and General	(Audited) Foundation Fundraising		
EXPENSES																
Payroll	\$ 190,568	\$ 117,454	\$ 33,856	\$ 31,466	\$ 71,998	\$ 62,472	\$ 507,814	\$ —	\$ 11,000	\$ 518,814	\$ 375,481	\$ —	\$ 7,000	\$ 2,000	\$ 903,295	
Payroll Taxes	16,846	10,606	3,057	2,841	6,501	5,641	45,492	—	—	45,492	23,777	—	—	—	69,269	
Employee Benefits	14,096	8,663	1,693	1,890	4,213	3,524	34,079	—	—	34,079	69,534	—	—	—	103,613	
Advertising	—	—	—	—	—	—	—	—	—	—	26,123	—	—	—	26,123	
Arena Rental	462,353	—	10,420	—	—	—	472,773	19,100	—	491,873	—	—	—	—	491,873	
Bank Charges and Credit Card Fees	—	—	—	—	—	—	—	—	—	—	178,830	3,082	113	—	182,025	
Other Show Expense	35,985	—	2,405	—	1,477	—	39,867	1,474	—	41,341	8,307	—	—	—	49,648	
Awards	293,917	927	—	—	—	—	294,844	22,024	5,063	321,931	4,688	—	839	—	327,458	
Meetings	—	—	—	—	—	—	—	—	—	—	39,286	—	702	—	39,988	
Computer Expense	3,172	—	4,438	—	—	150	7,760	—	—	7,760	10,600	—	—	—	18,360	
Outside Services	63,959	22,900	8,040	—	435	48,320	143,654	9,825	24,741	178,220	70,044	—	20,325	17,000	285,589	
Day Fees	345,920	—	8,950	—	—	—	354,870	—	—	354,870	—	—	—	—	354,870	
Depreciation and Amortization	9,292	5,710	1,116	1,246	2,778	2,323	22,465	—	—	22,465	29,448	—	—	—	51,913	
Donation	—	—	—	—	—	—	—	—	—	—	156,523	—	—	—	156,523	
Drug Testing	28,598	62,656	—	—	—	—	91,254	—	—	91,254	—	—	—	—	91,254	
Equipment	1,245	136	39	36	83	72	1,611	—	—	1,611	482	—	—	—	2,093	
Equipment Rental	106,824	2,898	4,786	777	1,778	1,542	118,605	—	—	118,605	10,268	—	—	—	128,873	
Licenses, Permits, and Filing Fees	—	—	—	—	—	—	—	—	—	—	385	10	10	—	405	
Insurance Expense	4,006	2,469	712	661	1,513	1,313	10,674	—	—	10,674	7,891	—	—	—	18,565	
Travel, Meals and Lodging	296,228	10,389	14,512	1,989	16,490	12,341	351,949	8,037	85,154	445,140	27,671	—	24,360	—	497,171	
Newsletter	—	—	—	—	—	—	—	—	—	—	2,825	—	—	—	2,825	
Office Expenses and Supplies	15,247	454	89	99	221	746	16,856	374	19,592	36,822	25,789	181	13,343	—	76,135	
Payouts	1,417,562	—	—	133,696	—	—	1,551,258	4,639	—	1,555,897	—	—	—	—	1,555,897	
Plaques and Trophies	—	221,781	—	—	—	—	221,781	—	—	221,781	—	—	—	—	221,781	
Postage and Shipping	3,524	2,200	409	460	9,406	129,196	145,195	—	175	145,370	20,571	—	893	—	166,834	
Printing	45,049	5,158	15,184	3,840	9,830	367,589	446,650	2,059	12,843	461,552	17,353	35	17,912	—	496,852	
Sponsorships	16,110	—	—	—	—	—	16,110	—	30,000	46,110	10,349	—	—	—	56,459	
Stall/Entry Fees	—	—	—	—	—	—	—	—	19,174	19,174	—	—	—	—	19,174	
Real Estate Taxes	3,618	2,224	435	485	1,081	905	8,748	—	—	8,748	11,466	—	—	—	20,214	
Telephone	3,262	2,011	580	539	1,233	1,069	8,694	—	69	8,763	6,582	—	228	—	15,573	
Occupancy	5,053	3,105	607	678	1,511	1,263	12,217	—	—	12,217	16,185	—	—	—	28,402	
Year-End Award Banquet	—	—	—	—	11,413	—	11,413	—	—	11,413	—	—	—	—	11,413	
Website and Internet	1,297	797	156	174	388	324	3,136	—	—	3,136	4,110	—	—	—	7,246	
Professional Fees	—	—	—	—	—	—	—	—	7,292	7,292	29,907	4,170	22,400	—	63,769	
Financial Assistance	—	—	—	—	—	—	—	—	46,750	46,750	—	—	—	—	46,750	
Other	92	—	—	—	—	—	92	—	—	92	797	—	—	—	889	
TOTALS	\$ 3,383,823	\$ 482,538	\$ 111,484	\$ 180,877	\$ 142,349	\$ 638,790	\$ 4,939,861	\$ 67,532	\$ 261,853	\$ 5,269,246	\$ 1,185,272	\$ 7,478	\$ 108,125	\$ 19,000	\$ 6,589,121	

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022

	National Snaffle Bit Association (Reviewed)	National Open Horse Show Association (Reviewed)	National Snaffle Bit Foundation (Audited)	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in Net Assets	\$ 477,856	\$ 13,541	\$ 343,298	\$ —	\$ 834,695
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities					
Depreciation and Amortization	51,913	—	—	—	51,913
Donated Stock	—	—	(39,922)	—	(39,922)
Unrealized Gains	(886)	—	(954)	—	(1,840)
Accounts Receivable	12,565	—	—	—	12,565
Due from Affiliate	—	—	(28,711)	5,269	(23,442)
Prepaid Expenses	(8,345)	500	—	—	(7,845)
Accounts Payable	—	—	(11,462)	—	(11,462)
Due to Affiliate	695	—	—	(5,269)	(4,574)
Accrued Liabilities	41,321	—	—	—	41,321
Smart Point Liability	33,469	—	—	—	33,469
Deferred Revenue	863	—	—	—	863
Total Adjustments	131,595	500	(81,049)	—	51,046
Net Cash Provided by Operating Activities	609,451	14,041	262,249	—	885,741
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Investments	(1,464,000)	—	(488,000)	—	(1,952,000)
Maturities of Certificates of Deposits in Investment Portfolio	1,182,565	—	201,288	—	1,383,853
Reinvested Interest on CDs in Investment Portfolio	(1,434)	—	(548)	—	(1,982)
Reinvested Interest on Certificates of Deposits	(3,796)	—	—	—	(3,796)
Net Increase in Uninvested Cash in Investment Portfolio	(536,848)	—	(12,001)	—	(548,849)
Purchases of Property and Equipment	(848,424)	—	—	—	(848,424)
Net Cash Used by Investing Activities	(1,671,937)	—	(299,261)	—	(1,971,198)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,062,486)	14,041	(37,012)	—	(1,085,457)
Cash and Cash Equivalents, Beginning	3,157,044	31,022	524,767	—	3,712,833
CASH AND CASH EQUIVALENTS, ENDING	\$ 2,094,558	\$ 45,063	\$ 487,755	\$ —	\$ 2,627,376

See accompanying notes and
auditors'/accountants' report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

The accompanying consolidated financial statements include the accounts of National Snaffle Bit Association (NSBA) and its affiliates, National Snaffle Bit Foundation (the Foundation) and National Open Horse Show Association (NOHSA), collectively the Association. NSBA was formed in 1983 primarily to define, promote, and improve the qualities of the pleasure horse, promote exhibits, events and contests in expositions and shows, and to encourage the use of standard rules for holding and judging contests of the pleasure horse.

The Foundation was formed in 2009 to encourage, by public contribution, support of worthwhile educational and charitable projects of interest and benefit to devotees of the NSBA.

National Open Horse Show Association (NOHSA) was formed in 2019 to promote cooperation amongst all horse show clubs and exhibitors, and to improve the open horse show community through programs, events and shows, as well as encourage the use of standard rules for holding and judging open horse shows, maintain records of open horse show results and reward participants regionally and nationally. It is a member organization that hosts an annual horse show and tracks points and awards high point winners for competitors. Operations commenced in 2020.

The majority of the assets and revenues are associated with NSBA.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Association's consolidated financial statements. The consolidated financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements.

In preparation of the consolidated financial statements, the Association follows the provisions of the Financial Standards Accounting Board (FASB)'s Accounting Standards Codification (ASC) topic related to "Financial Statements of Not-for-Profit Organizations." Net assets and revenues, gains, expenses and losses are classified as with donor restriction and without donor restriction based on the existence or absence of imposed restrictions as follows:

- Without Donor Restrictions – These funds are not subject to any imposed stipulations. These net assets may be designated for specific purposes by action of the Board of Directors (Board) or may otherwise be limited by contractual agreements with outside parties. At December 31, 2022, Board-designated net assets totaled \$-0- designated for the Crisis Fund. During the year ended December 31, 2022, the NSBA donated its remaining board-designated net assets of \$153,517 to the Foundation's Crisis Program.
- With Donor Restrictions – These are funds whose use is subject to donor-imposed stipulations that could be fulfilled by actions of the Board pursuant to those stipulations or that expire by the passage of time. Only the Foundation has donor-restricted net assets. The Foundation's policy is to allocate 30% of all restricted donations and release for administrative purposes. Commencing January 1, 2022, the Foundation has implemented a sliding scale administrative percentage. These administrative fees are released from restrictions and reclassified to support without donor restrictions. Donors are advised of this policy prior to solicitation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of NSBA, the Foundation and National Open Horse Show Association. All significant inter-entity transactions and balances have been eliminated in the consolidation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

CERTIFICATE OF DEPOSIT

The Association has one twenty-eight month certificate of deposit (CD) with a maturity date of February 26, 2023. It is the Association’s intent not to roll over the CD when it matures. The CD is recorded at cost plus accrued interest, which approximates fair value. The interest rate on the CD was .75% as of December 31, 2022.

ACCOUNTS RECEIVABLE

Accounts receivable primarily represents amounts owed for advertising in NSBA’s magazine. No allowance was deemed necessary as management believes amounts to be fully collectible. Amounts are written off to bad debt expense when collection appears doubtful.

PROPERTY AND EQUIPMENT

Property and equipment purchases of \$500 or more are recorded at cost if purchased, or fair value if donated, and depreciated/amortized on straight-line basis over their estimated useful lives using a half-year convention. The cost of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is recognized in income.

Major renewals and betterments that extend the useful life of an asset are capitalized while routine maintenance and repairs are expensed as incurred. The estimated useful lives for determining depreciation and amortization of the various classes of assets are as follows:

<u>Asset Class</u>	<u>Years</u>
Buildings and Building Improvements	10 – 39
Office and Computer Equipment.....	3 – 5
Computer Software.....	7
Trailers	7
Furniture and Fixtures	7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DONATED GOODS AND SERVICES

Donated goods are recorded as public support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose or time period of use. The Foundation received donated auction items, which were sold during the Organization's special events in the year ended December 31, 2022, of \$34,494.

Donations of services are recorded if they create or enhance a non-financial asset, or they require specialized skills which would have to be purchased if they were not donated. During 2022, the Foundation received donated professional services valued at \$6,550, which consisted of accounting services and were utilized by the Foundation's supporting services. They were recorded at the estimated fair value based on the current rates for similar accounting services in the Chicagoland area. These amounts were included in donated goods and services revenue and in professional service fees in the statement of functional expenses.

There were no donor-imposed restrictions associated with the donated professional services.

ADVERTISING COSTS

The Association expenses advertising costs as they are incurred.

FUNCTIONAL EXPENSE ALLOCATION

The costs of providing various programs and other activities are presented on a functional basis in the consolidated statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited, based on direct charges or appropriate methods determined by management. These allocation methods include allocation of personnel and any other costs deemed to be related to time and efforts expended by employees on the different functional categories.

INCOME TAXES

NSBA is incorporated in Georgia and the Foundation is incorporated in Illinois, both as not-for-profit organizations. A determination letter from the Internal Revenue Service for NSBA was received on January 21, 1985 stating that it is exempt from federal income taxes under Internal Revenue Code section 501(c)(5). A determination letter was received for the Foundation stating that it is exempt from federal income taxes under Internal Revenue Code section 501(c)(3) effective November 30, 2009. It is similarly classified by the State of Illinois. NOHSA is exempt from federal income taxes under Internal Revenue Code section 501(c)(5), effective January 16, 2019. To the extent unrelated business income exists, NSBA, NOHSA and the Foundation would be subject to income taxes.

The Association has adopted the guidance in the FASB ASC topic on Income Taxes related to Uncertainty in Income Taxes which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the consolidated financial statements uncertain tax positions that the Association has taken or expects to take in its tax returns. Under the guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that it is sustainable, based on its technical merits. The tax benefits recognized in the consolidated financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Management believes that it has appropriate support for the positions taken on the Association's returns.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAXES (Continued)

No income tax liabilities resulting from unrelated business income tax are reported in the consolidated statement of financial position and no unrelated business income tax expenses are included in the consolidated statement of activities as management believes the amounts would not be material.

NSBA, the Foundation and NOHSA file their respective Forms 990 with the Internal Revenue Service. The Association also files its IRS and Illinois Forms 990T. The Foundation files its AG 990IL with the State of Illinois.

REVENUE RECOGNITION

NSBA has numerous sources of program revenue resulting from various types of contracts with customers. There are no contracts which contain variable consideration and there are no contract modifications.

NSBA membership dues are deferred and recognized as revenue over the membership period which is on a calendar-year basis; lifetime memberships are amortized on a straight-line basis over an estimated life of three years. Thus, these amounts are recognized over time. The amount of membership dues collected but unearned as of year-end are recorded as deferred revenue.

Sponsorship income is either recognized at a point in time for show or event sponsorship or over time for overall or class sponsorships of the Association. Event sponsors receive benefits from their sponsorship in location, parking, RV spaces, golf carts, banners, advertisement, etc. as well as class sponsorships that provide money and awards for the annual event.

Subscriptions for NSBA's magazine and related advertising revenue are recognized as revenue over the subscription period and thus recorded over time. Amounts received in advance of the subscription period are recorded as deferred revenue.

The BCF and Color BCF Added Money is an incentive program for breeders whereby enrollment makes foals eligible for specific competition to compete for the purse generated from the program over the course of the horse's age from one year through their sixth year. BCF and Color BCF enrollment revenue is received throughout the period the horse is in competition, and recognized upon payout, thus at a point in time. Amounts received in advance are recorded as deferred revenue.

The NSBA World Championship Show is an annual event with 1,850 stalls sold, 8,500 individual entries made by owners and exhibitors where participants compete in a horse show for money and prizes. World Show and Other Show revenues are recognized at a point in time when the performance obligations are satisfied at the events.

Credit Card Surcharges represent amounts charged to customers for using credit cards for payment. NSBA charges a percentage for the use of the credit cards to recoup the expenses it had to pay to the credit card vendors. This revenue is recognized at a point in time when the transactions occur.

The Judge's program certifies judges by providing educational material and testing for judges to maintain and receive certification to judge NSBA events. Judges Program revenue is recognized at a point in time when the performance obligation is satisfied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

The Licensing Program enrolls horses into a breeding incentive program, where enrolled horses compete at NSBA horse shows and earn money for NSBA points received in such competition. The Licensing Program horse registration fee is recognized at a point in time.

Stallion Incentive Fund (SIF) - stallion auction sale proceeds are recognized at the time of sale, thus at a point in time. The incentive funds are paid out based on year-end competition points, and the auction proceeds are used to pay the fees for the SIF payout.

The Yearling Sale is an annual auction. NSBA provides the platform for sellers to meet with buyers and the yearling horses sold through the sale are then eligible for additional purse money in their two and three-year old years. Yearling Sales revenue is recognized at a point in time when the sale occurs.

Smart Points is an incentive fund program for youth showing in NSBA approved horse shows. The only revenue is the annual Smart Point registration fee which is recognized at a point in time when received. Children enrolled compete for points which pay the youth based on the points earned in each competition year. Smart Points registration allows riders to compete for this money. The annual purse is generated from show sanction fees (fees paid to NSBA for each competing youth) collected throughout the competition year. These amounts are accumulated and recorded as a liability on the statements of financial position.

Merchandise Sales are primarily duplicate trophies sold throughout the year and are recognized at a point in time when the sales transaction occurs.

The Year-End Banquet is an annual event that celebrates the success of our previous year's high point champions and Hall of Fame inductees, and the revenue is recognized at a point in time when the banquet occurs.

Miscellaneous revenue is all recognized at a point in time.

For the year ended December 31, 2022, revenue recognized at a point in time totaled \$4,614,006 and revenue recognized over time totaled \$1,746,627.

The Foundation's revenue all results from either contributions or a special event online auction that occurs leading up to and during the World Show. Contribution revenue is not subject to the revenue recognition standards under 606. The online auction revenues are recognized when the auction is completed and the winners pay for the items that they were successful in purchasing from their winning bids, thus this revenue is recognized at a point in time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position, are comprised of the following at December 31, 2022:

Cash and Cash Equivalents.....	\$	2,627,376
Investments.....		2,544,593
(Investments-Current) Certificates of Deposits.....		508,191
Accounts Receivable		11,056
Less: Donor Restricted Net Assets		<u>(702,250)</u>
		<u>\$ 4,988,966</u>

Assuming revenues are fairly consistent in subsequent years, the Association will have sufficient resources to meet its future expenses.

As part of the liquidity management plan, the Association invests cash in excess of daily requirements in certificates of deposit and other investments and ensures all cash accounts are interest-bearing.

NOTE 3—INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The FASB Codification provides a framework for measuring fair value using a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022.

Level 1 Fair Value Measurements

The fair values of common stocks are based on quoted market prices in active markets for identical assets, when available.

Level 2 Fair Value Measurements

The fair values of certificates of deposit are based on significant other observable quoted prices for similar assets in active markets.

Level 3 Fair Value Measurements

The Organization has no level 3 fair value measurements.

Fair values of investments measured on a recurring basis at December 31, 2022 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of Deposit.....	\$ 1,955,163	\$ —	\$ 1,955,163	\$ —
Common Stocks.....	<u>40,581</u>	<u>40,581</u>	<u>—</u>	<u>—</u>
Total Investments at Fair Value	1,995,744	<u>\$ 40,581</u>	<u>\$ 1,955,163</u>	<u>\$ —</u>
Uninvested Cash in Investment Portfolio.....	<u>548,849</u>			
Total Investments.....	<u>\$ 2,544,593</u>			

NOTE 4—DEFERRED REVENUE

Deferred revenue (current and long-term) of NSBA at December 31, 2022 consisted of the following:

BCF Enrollment.....	\$ 855,111
Memberships.....	419,233
Stallion Incentive Fund.....	194,995
Color BCF Enrollment.....	386,526
Magazine	<u>7,718</u>
	<u>\$ 1,863,583</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5—NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets of the Foundation at December 31, 2022 are as follows:

Crisis Fund.....	\$ 179,673
Youth Scholarship/Education Fund	328,385
Equestrians with Disabilities	22,751
Heroes on Horses	162,203
Animal Welfare	<u>9,238</u>
	<u>\$ 702,250</u>

Amounts released from restrictions inclusive of administrative fees for the year ended December 31, 2022 are as follows:

Crisis Fund.....	\$ 64,580
Youth Scholarship/Education Fund	112,136
Equestrians with Disabilities	88,188
Heroes on Horses	53,891
Animal Welfare	<u>5,213</u>
	<u>\$ 324,008</u>

NOTE 6—RENTAL INCOME

On May 1, 2014, the Association (lessor) entered into a lease agreement with Fourth Quarter Holdings, Inc., d/b/a Signs Now Gurnee, Inc. (lessee) for general office space, which expired April 30, 2017. Effective December 1, 2016, the Association renegotiated a new lease, which expired November 30, 2019. The Association and lessee were on a month-to-month basis for December 2019 and a new three-year lease, effective January 1, 2020, was signed with the same lease terms. The lessee shall pay the Association a monthly fee, which is fixed at \$2,705 for the entire lease. Included in base rent is the lessee’s portion of real estate taxes and the lessee shall also reimburse the lessor 25% of snow removal and landscaping maintenance. These reimbursements are netted against occupancy expense on the consolidated statement of activities. Rental income was \$32,460 for 2022.

Future minimum amounts expected to be collected under the lease was \$32,460 for the year ending December 31, 2023. However, the Association has put the building up for sale in January 2023. The tenant will have a month-to-month contract with the Association until the building is sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7—OPERATING LEASE

In June 2017, the Association entered into a 39-month copier lease with monthly payments of \$623. Prior to the expiration of this lease in May 2020, the Association entered into a 48-month copier lease with monthly payments of \$878. In May 2020, the Association entered into a 63-month postage machine lease with monthly payments of \$188. Additionally, in February 2023, the Association entered into a 36-month copier lease in Texas with monthly payments of \$552. Rent expense for these leases and other short-term rental agreements, including for tents and a stage for the World Show, totaled \$128,873 for 2022

Future minimum lease payments are as follows:

Years Ending December 31	
2023	\$ 18,592
2024	12,395
2025	7,942
2026	<u>828</u>
Total.....	<u>\$ 39,757</u>

The postage meter was moved to the Association’s new location and the copier lease which expires in April of 2024 is being used until the building sale is finalized at which time the Association will buy out the lease.

Although the Association adopted the new lease standard in 2022, the above amounts were not deemed significant enough to warrant disclosure of a liability and right of use asset as the one copier lease will be bought out as soon as the Illinois facility is sold. The commitment has still been disclosed, however.

NOTE 8—RETIREMENT PLAN

In August 2021, NSBA established a 401(k) retirement plan for all eligible employees once they have completed 12 months of service, or 1000 hours in 12 months service by the next plan entry date. NSBA will match 100% of the employee salary deferrals up to 3%. Employees that are eligible are immediately 100% invested. NSBA’s contribution to the plan was \$24,862 for 2022.

NOTE 9—RELATED PARTY TRANSACTIONS

The Association received board members contributions of \$19,000 in 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10—CONCENTRATIONS OF CREDIT RISK

The Association maintains cash and cash equivalents in bank deposit accounts and certificates of deposit, which at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to any significant credit risk on cash and cash equivalents and certificates of deposit as they are deposited in quality financial institutions.

The Association's investments are exposed to various risks such as an interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the fair value of investments will occur in the near term and materially affect the amounts reported in the financial statements.

Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because a significant portion of the outstanding amounts are due from program participants supportive of the Association's mission.

NOTE 11—SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2023, the date which the consolidated financial statements were available for issue. As of January 1, 2023, the Association relocated their office to Texas. As disclosed in Note 6, the Illinois office building was put up for sale in January 2023. The rental lease expired December 31, 2022 and has moved to a month-to-month contract until the Illinois office building is sold. There are no other subsequent events requiring disclosure.