

Breeders Invitational

Combined Financial Statements

December 31, 2003

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Barbich
Longcrier
Hooper
& King
Accountancy Corporation

Independent Auditors' Report

Board of Directors
Breeders Invitational
Porterville, California

We have audited the accompanying combined statement of financial position of Breeders Invitational, a nonprofit corporation, as of December 31, 2003, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Breeders Invitational as of at December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Barbich Longcrier Hooper & King

Bakersfield, California
May 20, 2004

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5001 E. Commercenter Drive, Suite 350
P.O. Box 11171
Bakersfield, CA 93389
Phone: 661.631.1171
Fax: 661.631.0244

100 Cross Street
Suite 103
San Luis Obispo, CA 93401
Phone: 805.541.2500
Fax: 805.541.4024

1010 S. Broadway
Suite 1
Santa Maria, CA 93454
Phone: 805.349.7705
Fax: 805.349.7702

Breeders Invitational
Combined Statement of Financial Position
December 31, 2003

ASSETS

Current Assets

Cash	\$ 1,849,869
Accounts receivable	119,875
Deposits and deferred expenses	<u>39,000</u>
	<u>2,008,744</u>
	<u>\$ 2,008,744</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 3,397
Deferred revenue	<u>74,700</u>
	<u>78,097</u>

Net Assets

Unrestricted:	
Undesignated	<u>1,930,647</u>
	<u>\$ 2,008,744</u>

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Activities and
Changes in Net Assets
For the Year Ended December 31, 2003

Changes in unrestricted net assets:

Revenues:	
Derby slot income	\$ 1,266,536
Stallion subscriptions	733,625
Sponsorship income	260,191
Breeders Invitational sale income	102,987
Show income	94,125
Western retail exhibit	31,475
Interest	18,473
Commissions paid	14,681
VIP club income	<u>9,821</u>
Total unrestricted income	<u>2,531,914</u>
Expenses:	
Management and general	316,941
Breeders Invitational Derby	<u>2,159,751</u>
Total expenses	<u>2,476,692</u>
Increase in unrestricted net assets	55,222
Net assets, beginning of the year	<u>1,875,425</u>
Net assets, end of the year	<u><u>\$ 1,930,647</u></u>

See Notes to Combined Financial Statements.

Breeders Invitational

**Combined Statement of Functional Expenses
For the Year Ended December 31, 2003**

	<u>Management And General</u>	<u>Breeders Invitational Derby</u>	<u>Total</u>
Payouts	\$ -0-	\$ 1,430,938	\$ 1,430,938
Cattle and livestock expense	-0-	208,638	208,638
Show expense	-0-	202,789	202,789
Promotional expense	47,488	46,546	94,034
Staffing	-0-	70,681	70,681
Advertising	33,474	34,962	68,436
Marketing	62,934	-0-	62,934
Arena ground	-0-	52,899	52,899
Outside services	44,000	-0-	44,000
Judges	-0-	39,542	39,542
Signage	-0-	36,092	36,092
Stallion owner expense	19,278	-0-	19,278
Clerical	18,942	-0-	18,942
Professional fees	17,815	-0-	17,815
Facility and equipment expense	-0-	13,405	13,405
Computer	13,331	-0-	13,331
Telephone	12,949	-0-	12,949
Board meetings	11,127	1,507	12,634
Awards	-0-	11,991	11,991
Insurance	2,036	9,519	11,555
Utilities	8,932	-0-	8,932
Postage	7,888	-0-	7,888
Rents	6,000	-0-	6,000
Office expense	4,132	-0-	4,132
Miscellaneous	2,874	-0-	2,874
Janitorial	1,000	-0-	1,000
Other fees	895	-0-	895
Payroll taxes	789	-0-	789
Bank charges	482	242	724
Dues and subscriptions	<u>575</u>	<u>-0-</u>	<u>575</u>
 Total expenses	 <u>\$ 316,941</u>	 <u>\$ 2,159,751</u>	 <u>\$ 2,476,692</u>

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Cash Flows
For the Year Ended December 31, 2003

<i>Cash flows from operating activities:</i>	
Increase in net assets	\$ 55,222
<i>Adjustments to reconcile change in net assets to net cash used in operating activities</i>	
Increase in accounts receivable	(38,500)
Increase in prepaids and deferred expenses	(10,985)
Decrease in accounts payable and accrued expenses	(7,727)
Decrease in deferred revenue	<u>(500,480)</u>
Net cash used in operating activities	<u>502,470</u>
<i>Cash flows from investing activities:</i>	
Decrease in investments	<u>259,519</u>
<i>Net decrease in cash and cash equivalents</i>	(242,951)
<i>Cash and cash equivalents at beginning of year</i>	<u>2,092,820</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 1,849,869</u></u>

See Notes to Combined Financial Statements.

Breeders Invitational

Notes to Combined Financial Statements

Note 1. Activities and Summary of Significant Accounting Policies

Principles of combination:

The combined financial statements include the accounts of Breeders Invitational and Breeders Invitational Derby. Inter-company accounts have been eliminated.

Nature of Activities:

Breeders Invitational (the Organization) is a nonprofit membership organization formed to promote and enhance the cutting horse industry by providing an annual showcase cutting horse competition.

The Organization consists of Breeders Invitational, which is a membership made up of stallion owners, and Breeders Invitational Derby, which is an annual cutting horse event held during early June in Reno, Nevada.

Income taxes:

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under Internal Revenue Code section 501(c)(5) and similar state provisions. The Organization is classified as a nonprofit organization and is not classified as a private foundation.

Financial statement presentation:

The Organization has adopted SFAS No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

During the fiscal year ended December 31, 2003, net assets of the Organization consisted of unrestricted net assets which were available for the general activities and obligations of the Organization.

Notes to Combined Financial Statements

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Donated services:

A substantial number of volunteers have donated significant amounts of their time in the Organization. No amounts have been included in the financial statements for donated services since no objective basis is available to measure the value of such services.

Revenue:

Stallion subscriptions:

Each member of the Organization may subscribe one or more stallions and pay for each breeding season, a fee of \$2,500 per stallion per year, due and payable by October 15th of the year prior to breeding, plus an additional fee of \$125 for each mare bred in excess of twenty (20) up to and including eighty (80) mares, due and payable by December 1st of the breeding year.

Derby slots:

Derby slots represent entry fees which are received for horses that enter into the Breeder's Invitational (the Event). The first Event was held in June of 2003. Entry fees received in years prior to 2003 were recorded as deferred revenue.

Revenue/Expense recognition:

Costs applicable to the Event are deferred and expensed in the subsequent year in which the Event occurs.

Notes to Combined Financial Statements

Accounts receivable:

Fees for mares bred during the current breeding season are due by December 1st.
Fees not collected by December 1st are included in accounts receivable.

Note 2. Cash

Cash accounts included the following at December 31, 2003:

	<u>2003</u>
Working checking account	\$ 98,278
Savings accounts	507,094
Money market accounts	<u>1,244,497</u>
	<u>\$ 1,849,869</u>

At December 31, 2003 the working checking account is concentrated in an FDIC institution in excess of the related insurance coverage.

Note 3. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2003 relate to the following subscription year:

	<u>2003</u>
1998	\$ 7,875
1999	6,625
2000	15,750
2001	42,875
2002	179,000
2003	294,000
2004	<u>187,500</u>
	<u>\$ 733,625</u>

Stallion subscriptions include annual breeding season fees plus fees for excess mares bred during season.

Notes to Combined Financial Statements

Note 4. Commitments

Office Lease

The Organization leases an office under an operating lease on a month to month basis.

Total rental expense for the operating lease was \$6,000 for the year ended December 31, 2003.