

Breeders Invitational

Combined Financial Statements

December 31, 2004

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Independent Accountants' Review Report

Board of Directors
Breeders Invitational
Bakersfield, California

We have reviewed the accompanying combined statement of financial position of Breeders Invitational, a nonprofit corporation, as of December 31, 2004, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institution of Certified Public Accountants. All information included in these combined financial statements is the representation of the management of Breeders Invitational.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

Barbich Longcrier Hooper & King

Bakersfield, California
March 2, 2005

Breeders Invitational
Combined Statement of Financial Position
December 31, 2004

ASSETS

Current Assets

Cash	\$ 1,968,151
Accounts receivable	87,247
Deposits and deferred expenses	<u>25,500</u>
	<u>2,080,898</u>
	<u>\$ 2,080,898</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	<u>\$ 1,883</u>
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Net Assets

Unrestricted	<u>2,079,015</u>
	<u>\$ 2,080,898</u>

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Activities and
Changes in Net Assets
For the Year Ended December 31, 2004

Changes in unrestricted net assets:

Revenues:

Derby slot income	\$ 955,808
Stallion subscriptions	687,288
Sponsorship income	265,960
Show income	60,080
Western retail exhibit	8,381
Interest	21,902
Curtain income	<u>1,500</u>

Total unrestricted income	<u>2,000,919</u>
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Expenses:

Management and general	264,762
Breeders Invitational Derby	<u>1,587,789</u>

Total expenses	<u>1,852,551</u>
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Increase in unrestricted net assets	148,368
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Net assets, beginning of the year	<u>1,930,647</u>
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Net assets, end of the year	<u><u>\$ 2,079,015</u></u>
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See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Functional Expenses
For the Year Ended December 31, 2004*

	<i><u>Management And General</u></i>	<i><u>Breeders Invitational Derby</u></i>	<i><u>Total</u></i>
Advertising	\$ 26,678	\$ 18,751	\$ 45,429
Arena ground	-0-	47,217	47,217
Awards	-0-	13,792	13,792
Bank charges	305	130	435
Board meetings	9,228	391	9,619
Cattle and livestock expense	-0-	183,553	183,553
Clerical	21,629	-0-	21,629
Computer	5,732	-0-	5,732
Dues and subscriptions	110	-0-	110
Insurance	2,006	4,750	6,756
Janitorial	1,188	-0-	1,188
Judges	-0-	37,420	37,420
Miscellaneous	787	-0-	787
NCHA fees	-0-	4,266	4,266
Office expense	6,690	-0-	6,690
Other fees	275	-0-	275
Outside services	60,900	-0-	60,900
Payouts	-0-	1,164,554	1,164,554
Payroll taxes	1,922	-0-	1,922
Postage	8,241	-0-	8,241
Professional fees	19,978	-0-	19,978
Promotional expense	20,780	7,331	28,111
Rent	6,000	-0-	6,000
Show expense	-0-	25,858	25,858
Signage	-0-	5,382	5,382
Staffing	-0-	74,394	74,394
Telephone	6,344	-0-	6,344
Television expense	61,883	-0-	61,883
Utilities	<u>4,086</u>	<u>-0-</u>	<u>4,086</u>
	<u>\$ 264,762</u>	<u>\$ 1,587,789</u>	<u>\$ 1,852,551</u>

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Cash Flows
For the Year Ended December 31, 2004*

Cash flows from operating activities:

Increase in net assets \$ 148,368

*Adjustments to reconcile change in net assets
to net cash provided by operating activities*

Decrease in accounts receivable 32,628
Decrease in deposits and deferred expenses 13,500
Decrease in accounts payable and accrued expenses (1,514)
Decrease in deferred revenue (74,700)

Net cash provided by operating activities 118,282

Net increase in cash and cash equivalents 118,282

Cash and cash equivalents at beginning of year 1,849,869

Cash and cash equivalents at end of year \$ 1,968,151

See Notes to Combined Financial Statements.

Breeders Invitational

Notes to Combined Financial Statements

Note 1. Activities and Summary of Significant Accounting Policies

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.

Principles of combination:

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

Basis of accounting:

Assets and liabilities, and revenues and expenses are recognized on the accrual basis of accounting.

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:

Financial statement presentation follows the guidance of 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.

Notes to Combined Financial Statements

During the fiscal year ended December 31, 2004, net assets of the Organization consisted of unrestricted net assets which were available for the general activities and obligations of the Organization.

Use of estimates:

The preparation of financial statements in conformity with U.S. 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 to 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.

Advertising:

The Organization expenses advertising costs as they are incurred. Advertising expense was \$45,429 for the year ended December 31, 2004.

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.

Notes to Combined Financial Statements

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 year subsequent to the year in which the Event occurs.

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.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessments of the current status of individual accounts. Balances that are still outstanding after reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Note 2. Cash

Cash accounts included the following at December 31, 2004:

Working checking account	\$ 218,364
Savings accounts	517,946
Money market accounts	<u>1,231,841</u>
	<u>\$ 1,968,151</u>

At December 31, 2004 the working checking and savings accounts are concentrated in an FDIC institution in excess of the related insurance coverage.

Notes to Combined Financial Statements

Note 3. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2004 relate to the following subscription year:

2000	\$ 14,000
2001	14,125
2002	63,288
2003	160,000
2004	243,375
2005	<u>192,500</u>
	<u>\$ 687,288</u>

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

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, 2004.