

Breeders Invitational

Combined Financial Statements

December 31, 2005

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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, 2005, 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
February 14, 2006

Breeders Invitational
Combined Statement of Financial Position
December 31, 2005

See Accountants' Review Report

ASSETS

Current Assets

Cash	\$ 662,460
Accounts receivable	67,560
Deposits and deferred expenses	<u>25,500</u>
	<u>755,520</u>

Investments 1,465,633

\$ 2,221,153

LIABILITIES AND NET ASSETS

Net Assets

Unrestricted \$ 2,221,153

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Activities and
Changes in Net Assets
For the Year Ended December 31, 2005

See Accountants' Review Report

Changes in unrestricted net assets:

Revenues:

Derby slot income	\$ 1,179,191
Stallion subscriptions	531,600
Sponsorship income	247,820
Show income	90,305
Western retail exhibit	16,896
Interest	40,911
Curtain income	2,000
Unrealized loss on investments	<u>(12,872)</u>
Total revenues	<u>2,095,851</u>

Expenses:

Management and general	144,595
Breeders Invitational Derby	<u>1,809,118</u>
Total expenses	<u>1,953,713</u>

Increase in unrestricted net assets 142,138

Net assets, beginning of the year 2,079,015

Net assets, end of the year \$ 2,221,153

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Functional Expenses
For the Year Ended December 31, 2005*

See Accountants' Review Report

	<i>Management And General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 12,606	\$ 6,663	\$ 19,269
Arena grounds	-0-	49,002	49,002
Awards	-0-	20,729	20,729
Bank charges	201	-0-	201
Board meetings	5,842	682	6,524
Cattle and livestock expense	-0-	200,284	200,284
Clerical	161	-0-	161
Computer	3,729	-0-	3,729
Dues and subscriptions	170	-0-	170
Insurance	2,006	5,300	7,306
Judges	-0-	31,944	31,944
NCHA fees	-0-	5,058	5,058
Office expense	6,458	-0-	6,458
Other fees	275	-0-	275
Outside services	65,900	-0-	65,900
Payouts	-0-	1,357,102	1,357,102
Postage	5,235	-0-	5,235
Professional fees	8,649	-0-	8,649
Promotional expense	16,236	1,244	17,480
Rent	11,400	-0-	11,400
Show expense	-0-	15,574	15,574
Signage	-0-	6,676	6,676
Staffing	-0-	62,789	62,789
Telephone	5,066	-0-	5,066
Television expense	-0-	46,071	46,071
Utilities	661	-0-	661
	<u>\$ 144,595</u>	<u>\$ 1,809,118</u>	<u>\$ 1,953,713</u>

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Cash Flows
For the Year Ended December 31, 2005*

See Accountants' Review Report

Cash flows from operating activities:

Increase in net assets \$ 142,138

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

Decrease in accounts receivable 19,687

Decrease in accounts payable and accrued expenses (1,883)

Unrealized loss on investments 12,872

Net cash provided by operating activities 172,814

Cash flows used in investing activities:

Purchase of investments (1,478,505)

Net decrease in cash and cash equivalents (1,305,691)

Cash and cash equivalents at beginning of year 1,968,151

Cash and cash equivalents at end of year \$ 662,460

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.

During the fiscal year ended December 31, 2005, 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

See Accountants' Review Report

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.

Investments:

Financial statement presentation follows the guidance of Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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 \$19,269 for the year ended December 31, 2005.

Notes to Combined Financial Statements

See Accountants' Review Report

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 Derby (the Event).

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 balances outstanding at year end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realized losses on balances outstanding at year-end will be immaterial; accordingly, no allowance for doubtful accounts is required.

Notes to Combined Financial Statements

See Accountants' Review Report

Note 2. Cash

Cash accounts included the following at December 31, 2005:

Working checking account	\$ 41,358
Savings accounts	608,093
Money market accounts	<u>13,009</u>
	<u>\$ 662,460</u>

At December 31, 2005 the savings accounts were concentrated in an FDIC institution in excess of the related insurance coverage.

Note 3. Investments

Investments at December 31, 2005 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
<i>Unrestricted, board designated:</i>		
Certificates of deposit	\$ 514,000	\$ 509,506
U.S. Government bonds	<u>964,505</u>	<u>956,127</u>
	<u>\$ 1,478,505</u>	<u>\$ 1,465,633</u>

Note 4. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2005 relate to the following subscription year:

2001	\$ 2,375
2002	9,100
2003	9,000
2004	121,500
2005	194,625
2006	<u>195,000</u>
	<u>\$ 531,600</u>

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

Notes to Combined Financial Statements

See Accountants' Review Report

Note 5. 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 \$11,400 for the year ended December 31, 2005.