

*Breeders Invitational*

*Combined Financial Statements*

*December 31, 2006*

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Barbich  
Longcrier  
Hooper  
& King  
Accountancy Corporation

**Independent Auditor's Report**

Board of Directors  
Breeders Invitational  
Bakersfield, California

We have audited the accompanying combined statement of financial position of Breeders Invitational, a nonprofit corporation, as of December 31, 2006, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 December 31, 2006, and the changes in its net assets and its cash flows for the year ended in conformity with U.S. generally accepted accounting principles.

*Barbich Longcrier Hooper & King*

Bakersfield, California  
February 22, 2007

*Breeders Invitational*

*Combined Statement of Financial Position  
December 31, 2006*

***ASSETS***

***Current Assets***

Cash	\$ 261,313
Accounts receivable	42,200
Deposits and prepaid expenses	19,150
	<u>322,663</u>

***Investments***

	<u>1,972,625</u>
	<u>\$ 2,295,288</u>

***LIABILITIES AND NET ASSETS***

***Net Assets***

Unrestricted	<u>\$ 2,295,288</u>
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*See Notes to Combined Financial Statements.*

**Breeders Invitational**  
**Combined Statement of Activities and**  
**Changes in Net Assets**  
**For the Year Ended December 31, 2006**

**Changes in unrestricted net assets:**

**Revenues:**

Derby slot income	\$ 1,376,585
Stallion subscriptions	663,646
Sponsorship income	92,500
Show income	98,795
Sale incentive income	128,150
Interest	78,218
Curtain income	1,500
Unrealized gain on investments	5,592

Total revenues	2,444,986
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**Expenses:**

Management and general	190,051
Breeders Invitational Derby	2,180,800

Total expenses	2,370,851
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<b>Increase in unrestricted net assets</b>	74,135
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<b>Net assets, beginning of the year</b>	2,221,153
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<b>Net assets, end of the year</b>	\$ 2,295,288
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*See Notes to Combined Financial Statements.*

*Breeders Invitational*

*Combined Statement of Functional Expenses  
For the Year Ended December 31, 2006*

	<i>Management and General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 13,528	\$ 2,271	\$ 15,799
Arena grounds	-	15,703	15,703
Awards	-	36,987	36,987
Bank charges	-	205	205
Board meetings	4,047	-	4,047
Cattle and livestock expense	-	291,865	291,865
Clerical	1,265	-	1,265
Computer	12,802	-	12,802
Insurance	2,006	3,334	5,340
Judges	-	39,427	39,427
Miscellaneous	1,050	-	1,050
NCHA fees	-	6,810	6,810
Office expense	2,960	-	2,960
Outside services	70,500	-	70,500
Payouts	-	1,658,448	1,658,448
Postage	3,694	-	3,694
Professional fees	7,272	-	7,272
Promotional expense	29,175	790	29,965
Rent	11,400	-	11,400
Show expense	25,000	20,069	45,069
Signage	-	20,126	20,126
Staffing	-	78,784	78,784
Stallion owner expense	1,002	-	1,002
Telephone	3,434	-	3,434
Television expense	-	5,981	5,981
Utilities	916	-	916
	<u>\$ 190,051</u>	<u>\$ 2,180,800</u>	<u>\$ 2,370,851</u>

*See Notes to Combined Financial Statements.*

*Breeders Invitational*

*Combined Statement of Cash Flows  
For the Year Ended December 31, 2006*

*Cash flows from operating activities:*

Increase in net assets \$ 74,135

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

Unrealized gain on investments (5,592)

Decrease in accounts receivable 25,360

Decrease in deposits and prepaid expenses 6,350

Net cash provided by operating activities 100,253

*Cash flows used in investing activities:*

Redemption of certificates of deposit 225,000

Purchase of investments (726,400)

Net cash used in investing activities (501,400)

*Net decrease in cash and cash equivalents* (401,147)

*Cash and cash equivalents at beginning of year* 662,460

*Cash and cash equivalents at end of year* \$ 261,313

*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 of each year in Reno, Nevada. Beginning in 2007, the Breeders Invitational Derby will be held in Las Vegas, 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 year ended December 31, 2006, 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.

## *Notes to Combined Financial Statements*

### ***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's annual event. 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 \$15,799 for the year ended December 31, 2006.

### ***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 Breeders Invitational Derby (the Event).

*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.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on managements' 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.

***Note 2. Cash***

Cash accounts included the following at December 31, 2006:

Working checking account	\$	111,808
Savings account		118,851
Money market account		30,654
	<u>\$</u>	<u>261,313</u>

At December 31, 2006 the savings accounts were concentrated in an FDIC insured institution in excess of the related insurance coverage.

***Note 3. Investments***

Investments at December 31, 2006 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
<b><i>Unrestricted:</i></b>		
Certificates of deposit	\$ 1,002,528	\$ 1,015,400
U.S. Government bonds	964,505	957,225
	<u>\$ 1,967,033</u>	<u>\$ 1,972,625</u>

***Note 4. Stallion Subscriptions***

Stallion subscriptions earned during the year ended December 31, 2006 relate to the following subscription year:

2001	\$ (11,354)
2002	2,500
2003	5,250
2004	25,625
2005	186,875
2006	219,750
	<u>\$ 428,646</u>

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

*Notes to Combined Financial Statements*

**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, 2006.