

Breeders Invitational
Combined Financial Statements
December 31, 2010

C O N T E N T S

	<u><i>Page(s)</i></u>
<i>Independent Auditors' Report</i>	1-2
<i>Combined Financial Statements</i>	
Combined statement of financial position	3
Combined statement of activities and changes in net assets	4
Combined statement of cash flows	5
Notes to combined financial statements	6 – 9
<i>Combined Supplementary Information</i>	
Combined schedule of functional expenses	10



Independent Auditors' 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, 2010, and the related combined statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 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, 2010, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combined schedule of functional expenses on pages 10 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

**BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation**

BARBICH HOOPER KING

Bakersfield, California
March 9, 2011

Breeders Invitational

*Combined Statement of Financial Position
December 31, 2010*

ASSETS

Current Assets

Cash and cash equivalents	\$ 603,869
Accounts receivable	310,905
Deposits and prepaid expenses	20,254
	<u>935,028</u>

Investments

1,518,140

Other Receivables

75,000

\$ 2,528,168

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued expenses	\$ <u>548</u>
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Net Assets

Unrestricted	<u>2,527,620</u>
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\$ 2,528,168

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Activities and
Change in Net Assets
Year Ended December 31, 2010*

Changes in unrestricted net assets:

Revenues:

Derby slot income	\$ 1,626,147
Stallion subscriptions	401,018
Show income	240,658
Sponsorship income	133,400
Sale incentive income	51,700
Interest income	19,553
Western retail exhibit	12,650
Program ad income	(500)
Unrealized loss on investments	492
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Total revenues	2,485,118

Expenses:

Management and general	154,594
Breeders Invitational Derby	2,477,323
	<hr/>
Total expenses	2,631,917

Change in unrestricted net assets (146,799)

Net assets, beginning of the year

2,674,419

Net assets, end of the year

\$ 2,527,620

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Cash Flows
Year Ended December 31, 2010*

<i>Cash flows from operating activities:</i>	
Change in unrestricted net assets	\$ (146,799)
<i>Adjustments to reconcile change in net assets to net cash used in operating activities:</i>	
Unrealized gain on investments	(492)
<i>Changes in operating assets and liabilities:</i>	
Accounts receivable	54,897
Deposits and prepaid expenses	(6,932)
Accrued expenses	<u>(1,972)</u>
Net cash used in operating activities	<u>(101,298)</u>
<i>Cash flows from investing activities:</i>	
Redemption of investments	97,000
Purchase of investments	<u>(1,164,245)</u>
Net cash used in investing activities	<u>(1,067,245)</u>
<i>Net decrease in cash and cash equivalents</i>	(1,168,543)
<i>Cash and cash equivalents at beginning of year</i>	<u>1,772,412</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 603,869</u>

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 the Breeders Invitational Derby, which is an annual cutting horse event held during early June of each year. The Breeders Invitational Derby is held in Tulsa, Oklahoma.

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 FASB ASC 958-205-05. Under this standard, 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, 2010, 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 the combined 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 and cash equivalents:

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

As of July 21, 2010, the federally insured limit on each account ownership category was increased from \$100,000 to \$250,000. In addition, one of the institutions in which the Company maintains cash is a participant in the FDIC's Temporary Liquidity Guarantee Program, whereby unlimited deposit insurance coverage is available through December 31, 2013 for non-interest bearing transaction accounts. At December 31, 2010, the Organization had cash balances in excess of the insured limits.

Investments:

Financial statement presentation follows the guidance of FASB ASC 320. Under this standard, 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.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the combined statement of financial position.

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 \$31,178 for the year ended December 31, 2010.

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 up to and including eighty 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 Breeders Invitational Derby (the Event).

Accounts receivable:

Fees for mares bred during the current breeding season are due by December 1 of each year. Fees not collected by December 31 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 and Cash Equivalents

Cash accounts included the following at December 31, 2010:

Working checking account	\$	67,124
Savings account		370,724
Money market account		166,021
		<hr/>
	\$	603,869

Note 3. Fair Value of Financial Instruments

Effective September 30, 2009, the Organization adopted the FASB provisions concerning *Fair Value Measurements*, which pertain to certain statement of financial position items measured at fair value. FASB defines fair value, establishes a framework for measuring fair value, and expands disclosures about such measurements that are permitted or required under other accounting pronouncements. It does not change any calculation methods or require new measurements of fair value, and its adoption by the Organization had no impact on the combined financial statements.

In accordance with FASB guidance, fair value is determined as the price that would be received in exchange for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The standard establishes three levels of input that may be used to measure fair value:

Level 1 – Values are based on quoted market prices in active markets for identical assets or liabilities.

Level 2 – Values are based on quoted market prices for similar assets or liabilities, quoted market prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities.

Level 3 – Values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least on significant model assumption or input that is unobservable. Determination of the fair value requires significant judgment or estimation.

Notes to Combined Financial Statements

Assets measured and recorded at fair value on a recurring basis, excluding accrued interest components consisted of the following types of instruments as of December 31, 2010:

	<u>Fair Value</u>	<i>Fair Value</i> <i>Measurement Using:</i>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government Bonds	\$ 1,100,000	\$ 1,100,000	\$ -	\$ -
Certificates of Deposits	418,140	418,140	-	-
	<u>\$ 1,518,140</u>	<u>\$ 1,518,140</u>	<u>\$ -</u>	<u>\$ -</u>

The government bonds and certificates of deposits are included in investments on the Organization's statement of financial position at December 31, 2010.

Note 4. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2010 relate to the following subscription year:

2006	\$ 7,625
2007	11,375
2008	3,768
2009	30,625
2010	75,125
2011	<u>272,500</u>
	<u>\$ 401,018</u>

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

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 \$11,300 for the year ended December 31, 2010.

Note 6. Subsequent Events

In preparing the combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 9, 2011, the date the financial statements were issued, and nothing has been noted that would require disclosure.

Breeders Invitational

*Combined Schedule of Functional Expenses
Year Ended December 31, 2010*

	<i>Management and General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 12,449	\$ 18,729	\$ 31,178
Arena grounds	-	146,738	146,738
Awards	-	46,355	46,355
Bad debt expense	-	500	500
Bank charges	23	1,198	1,221
Board meetings	4,478	-	4,478
Cattle and livestock expense	-	265,814	265,814
Computer	5,886	375	6,261
Dues and subscriptions	60	-	60
Insurance	2,006	1,939	3,945
Judges	-	69,816	69,816
Miscellaneous	6,624	-	6,624
NCHA fees	-	17,543	17,543
Office expense	2,813	-	2,813
Outside services	82,500	-	82,500
Payouts	-	1,801,025	1,801,025
Postage	2,916	-	2,916
Professional fees	7,408	-	7,408
Promotional expense	9,796	4,130	13,926
Rent	11,300	-	11,300
Show expense	-	18,223	18,223
Signage	-	5,409	5,409
Staffing	-	77,305	77,305
Supplies	-	2,224	2,224
Telephone	4,259	-	4,259
Travel	1,209	-	1,209
Utilities	867	-	867
	<u>\$ 154,594</u>	<u>\$ 2,477,323</u>	<u>\$ 2,631,917</u>

See Notes to Combined Financial Statements.