

BREEDER'S INVITATIONAL
COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended December 31, 2012

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Wayne E. Long, CPA, MS Taxation

Randall L. Peterson, CPA, MS FIPL
Rita G. Meyeres, CPA
Janet K. Vining, CPA, MS Taxation
Sherry A. Copeland, CPA
Tony H. Lomas, CPA

Denise K. Williamson, CPA
Theresa R. Klass, CPA\ABV, MS Tax
Ryan W. Diffie, CPA, MS Taxation
Caitlyn A. Acquaviva, CPA
Lauren Be, CPA
Daniel P. Gutierrez, CPA
Alexander H. Hall, CPA
Stanley M. Handren, CPA

WAYNE LONG & CO.
CERTIFIED PUBLIC ACCOUNTANTS

1502 MILL ROCK WAY, SUITE 200

BAKERSFIELD, CALIFORNIA 93311
TELEPHONE (661) 664-0909
FAX (661) 664-0915

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Breeder's Invitational
Bakersfield, California

We have reviewed the accompanying combined statement of financial position of Breeder's Invitational (a nonprofit organization) as of December 31, 2012, and the related combined statements of activities and changes in net assets, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information contained in the accompanying schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

WAYNE LONG & CO.
CERTIFIED PUBLIC ACCOUNTANTS


Bakersfield, California
July 9, 2013

BREEDER'S INVITATIONAL
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	447,605
Accounts receivable		344,148
Prepaid expenses		6,000
Deposits		<u>500</u>

TOTAL CURRENT ASSETS 798,253

INVESTMENTS, at fair value		<u>1,141,503</u>
	\$	<u>1,939,756</u>

LIABILITIES AND NET ASSETS

NET ASSETS

Unrestricted	\$	<u>1,939,756</u>
	\$	<u>1,939,756</u>

See accompanying notes and independent accountants' review report.

BREEDER'S INVITATIONAL
 COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 Year Ended December 31, 2012

CHANGES IN UNRESTRICTED NET ASSETS

Revenues:

Derby slot income	\$ 2,342,993
Interest income	34,496
Net realized/unrealized gain (loss) on investments	(59,950)
Sale incentive income	108,236
Show income	374,469
Sponsorship income	72,050
Stallion subscriptions	545,634
Western retail exhibit	<u>14,460</u>

TOTAL UNRESTRICTED REVENUES AND GAINS 3,432,388

Expenses:

Management and general	166,504
Breeder's Invitational Derby	<u>3,709,004</u>

TOTAL EXPENSES 3,875,508

NET CHANGE IN UNRESTRICTED NET ASSETS (443,120)

NET ASSETS AT BEGINNING OF YEAR

As previously stated	2,438,272
Prior period adjustment, Note G	<u>(55,396)</u>

As restated 2,382,876

NET ASSETS AT END OF YEAR \$ 1,939,756

See accompanying notes and independent accountants' review report.

BREEDER'S INVITATIONAL
 COMBINED STATEMENT OF CASH FLOWS
 Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (443,120)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized/unrealized gain (loss) on investments	(7,232)
Changes in operating assets and liabilities:	
Accounts receivable	(180,215)
Prepaid expenses	(6,000)
Other receivables	75,000
Unearned revenue	<u>(78,280)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(639,847)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	1,049,715
Purchase of investments	<u>(779,741)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>269,974</u>
NET INCREASE (DECREASE) IN CASH	(369,873)
CASH AT BEGINNING OF YEAR	<u>817,478</u>
CASH AT END OF YEAR	\$ <u>447,605</u>

See accompanying notes and independent accountants' review report.

BREEDER'S INVITATIONAL
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Breeder's 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 Breeder's Invitational, which is a membership made up of stallion owners, and the Breeder's Invitational Derby, which is an annual cutting horse event held during May or early June of each year. The Breeder's Invitational Derby is held in Tulsa, Oklahoma.

Principles of Combination

The combined financial statements include the accounts of Breeder's Invitational and Breeder's Invitational Derby. Intercompany accounts have been eliminated.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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, 2012, 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.

BREEDER'S INVITATIONAL
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

Cash and Cash Equivalents

For the 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 at the time of purchase to be cash equivalents.

As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the FDIC's Temporary Liquidity Guarantee Program expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000. At December 31, 2012, the Organization had cash balances in excess of the insured limits with one institution.

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.

Contributed 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 \$18,077 for the year ended December 31, 2012.

Stallion Subscriptions

Each member of the Organization may subscribe one or more stallions and pay for each breeding season, a fee of \$1,250 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 ten up to, and including, eighty mares, due and payable by December 1st of the breeding year.

BREEDER'S INVITATIONAL
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

Derby Slots

Derby slots represent entry fees which are received for horses that enter into the Breeder's Invitational Derby (the Event).

Accounts Receivable

Stallion subscriptions, including fees for mares bred during the current breeding season are due by December 1st of each year. Fees not collected by December 31st 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 allowances for doubtful accounts is required.

NOTE B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following at December 31, 2012:

Working checking account	\$	292,713
Savings account		59,260
Money market account		<u>95,632</u>
	\$	<u>447,605</u>

NOTE C. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization has 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.

BREEDER'S INVITATIONAL
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

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 or 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.

Assets recorded at fair value on a recurring basis, were presented on the Organization's combined statement of financial position as of December 31, 2012 as follows:

	Fair Value	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Government bonds	\$ 390,762	\$ 390,762	\$ 0	\$ 0
Certificates of deposit	750,741	750,741	0	0
	<u>\$ 1,141,503</u>	<u>\$ 1,141,503</u>	<u>\$ 0</u>	<u>\$ 0</u>

Government bonds and certificates of deposit are included in investments on the Organization's combined statement of financial position at December 31, 2012.

NOTE D. STALLION SUBSCRIPTIONS

Stallion subscriptions earned during the year ended December 31, 2012 relate to the following subscription years:

Year Ended December 31,	Amount
2007	\$ 45,340
2008	69,117
2009	66,250
2010	66,375
2011	55,750
2012	101,552
2013	141,250
	<u>\$ 545,634</u>

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

BREEDER'S INVITATIONAL
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE E. 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 \$10,800 for the year ended December 31, 2012.

NOTE F. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, the Organization made net payments of \$92,500 to a company owned by an officer for services performed, as approved by the Board of Directors.

NOTE G. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2012, management determined that investments at the beginning of the year were overstated by \$55,396. As a result, unrestricted net assets at December 31, 2011 were overstated.

NOTE H. SUBSEQUENT EVENTS

In preparing the combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 9, 2013, the date the financial statements were issued, and nothing has been noted that would require disclosure.

SUPPLEMENTARY INFORMATION

BREEDER'S INVITATIONAL
 COMBINED SCHEDULE OF FUNCTIONAL EXPENSES
 Year Ended December 31, 2012

	<u>Management and General</u>	<u>Breeder's Invitational Derby</u>	<u>Total</u>
Advertising	\$ 13,417	\$ 4,660	\$ 18,077
Arena grounds	0	199,113	199,113
Awards	0	47,280	47,280
Bank charges	274	0	274
Board meetings	1,776	0	1,776
Cattle and livestock expense	0	412,942	412,942
Computer	5,838	0	5,838
Dues and subscriptions	320	0	320
Insurance	2,006	2,570	4,576
Judges	0	80,166	80,166
Merchant fees	0	5,418	5,418
Miscellaneous	858	0	858
NCHA fees	0	40,425	40,425
Office expense	3,502	0	3,502
Outside services	92,500	0	92,500
Payouts	0	2,756,733	2,756,733
Postage	2,304	0	2,304
Professional fees	7,410	0	7,410
Promotional expense	18,085	20,000	38,085
Rent	10,800	0	10,800
Show expense	0	15,381	15,381
Signage	0	6,978	6,978
Staffing	0	113,050	113,050
Supplies	0	2,042	2,042
Telephone	4,396	0	4,396
Travel	2,249	2,246	4,495
Utilities	769	0	769
	<u>\$ 166,504</u>	<u>\$ 3,709,004</u>	<u>\$ 3,875,508</u>

See independent accountants' review report.