

Breeders Invitational
Combined Financial Statements
December 31, 2014

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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, 2014, 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 the Organization's 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 combined financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review for the year ended December 31, 2014 was made primarily for the purpose of a conclusion that there are no material modifications that should be made to the combined financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The combined schedule of functional expenses, on page 11, 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 same inquiry and analytical procedures applied in the review of the basic combined financial statements, and we did not become aware of any material modifications that should be made to such information.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation



Bakersfield, California
March 5, 2015

Breeders Invitational
Combined Statement of Financial Position
December 31, 2014
See Independent Accountants' Review Report

ASSETS

Current Assets

Cash and cash equivalents	\$ 437,254
Accounts receivable	397,697
Accounts receivable, related party	38,015
Deposits and prepaid expenses	5,037
	<u>878,003</u>

Investments, at fair value

888,343

\$ 1,766,346

LIABILITIES AND NET ASSETS

Current Liabilities

Other current liabilities	\$ <u>5,545</u>
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Net Assets

Unrestricted	<u>1,760,801</u>
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\$ 1,766,346

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Activities and
Changes in Net Assets
For the Year Ended December 31, 2014
See Independent Accountants' Review Report

Changes in unrestricted net assets:

Revenues:

Derby slot income	\$ 1,614,158
Stallion subscriptions	416,134
Show income	304,281
Sale incentive income	84,150
Sponsorship income	65,663
Net realized and unrealized gain on investments	48,865
Interest income	26,633
Western retail exhibit	6,888
Other income	<u>2,220</u>
Total revenues	<u>2,568,992</u>

Expenses:

Management and general	168,004
Breeders Invitational Derby	<u>2,370,104</u>
Total expenses	<u>2,538,108</u>

Change in unrestricted net assets	30,884
Net assets, beginning of the year	<u>1,729,917</u>
Net assets, end of the year	<u><u>\$ 1,760,801</u></u>

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Cash Flows
For the Year Ended December 31, 2014
See Independent Accountants' Review Report*

<i>Cash flows from operating activities:</i>	
Change in net assets	\$ 30,884
<i>Adjustments to reconcile change in net assets to net cash used in operating activities:</i>	
Net realized and unrealized gain on investments	(48,865)
<i>Changes in operating assets and liabilities:</i>	
Accounts receivable	(48,004)
Deposits and prepaid expenses	1,385
Other current liabilities	<u>5,545</u>
Net cash used in operating activities	<u>(59,055)</u>
<i>Cash flows from investing activities:</i>	
Sale of investments	<u>98,274</u>
<i>Net increase in cash and cash equivalents</i>	39,219
<i>Cash and cash equivalents at beginning of year</i>	<u>398,035</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 437,254</u></u>

See Notes to Combined Financial Statements.

Breeders Invitational

***Notes to Combined Financial Statements
See Independent Accountants' Review Report***

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 combined 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. Annual information returns filed with Federal and state governments use the same accounting methods as those for financial reporting. The Organization is no longer subject to Federal or state government tax authorities' examinations for the years before 2011.

Basis of presentation:

Financial statement presentation follows the guidance of the Financial Accounting Standards Board (FASB), *Presentation of Financial Statements of Not-for-Profit Organizations*. 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, 2014, 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 Independent 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 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 at the time of purchase to be cash equivalents.

Investments:

Financial statement presentation follows the guidance of the FASB, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the combined 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 combined 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 \$19,176 for the year ended December 31, 2014.

Revenue:

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.

Notes to Combined Financial Statements
See Independent Accountants' Review Report

Derby slots

Derby slots represent entry fees which are received for horses that enter into the Breeders 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 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 Equivalentents

Cash and cash equivalentents included the following at December 31, 2014:

Working checking account	\$ 186,181
Savings account	200,454
Money market account	50,619
	<u>\$ 437,254</u>

Note 3. 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.

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.

Notes to Combined Financial Statements
See Independent Accountants' Review Report

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, 2014 as follows:

	Fair Value			
	Fair Value	Measurements Using:		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government bonds	\$ 390,270	\$ 390,270	\$ -	\$ -
Certificates of deposit	498,073	498,073	-	-
	<u>\$ 888,343</u>	<u>\$ 888,343</u>	<u>\$ -</u>	<u>\$ -</u>

Government bonds and certificates of deposit are included in investments on the Organization's combined statement of financial position at December 31, 2014.

Note 4. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2014 relate to the following subscription years:

2011 and prior	\$ 31,134
2012	76,875
2013	25,375
2014	142,750
2015	140,000
	<u>\$ 416,134</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 \$10,800 for the year ended December 31, 2014.

Note 6. Related Party Transactions

As approved by the Board of Directors, during the year ended December 31, 2014, the Organization made payments of \$100,000 to a company owned by an officer for management services performed.

Notes to Combined Financial Statements
See Independent Accountants' Review Report

Note 7. Subsequent Events

The Organization has evaluated events and transactions subsequent to December 31, 2014 through, March 5, 2015, the date of the independent accountants' review report, noting no significant items requiring further discussion.

Breeders Invitational

*Combined Schedule of Functional Expenses
For the Year Ended December 31, 2014
See Independent Accountants' Review Report*

	<i>Management and General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 13,076	\$ 6,100	\$ 19,176
Arena grounds	-	194,787	194,787
Awards	-	37,492	37,492
Bank fees	-	212	212
Board meetings	1,601	-	1,601
Cattle and livestock expense	-	331,705	331,705
Computer	5,545	450	5,995
Dues and subscriptions	100	-	100
Insurance	1,474	2,490	3,964
Judges	-	58,439	58,439
Miscellaneous	736	-	736
NCHA fees	-	27,220	27,220
Office expense	3,150	-	3,150
Outside services	100,000	-	100,000
Payouts	-	1,609,677	1,609,677
Postage	2,375	-	2,375
Professional fees	8,330	-	8,330
Promotional expense	14,673	-	14,673
Rent	10,800	-	10,800
Show expense	-	29,071	29,071
Signage	-	3,259	3,259
Staffing	-	68,322	68,322
Supplies	-	880	880
Telephone	2,588	-	2,588
Travel	2,769	-	2,769
Utilities	787	-	787
	<u>\$ 168,004</u>	<u>\$ 2,370,104</u>	<u>\$ 2,538,108</u>

See Notes to Combined Financial Statements.