

Breeders Invitational
Combined Financial Statements
December 31, 2015

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Independent Accountants' Review Report

Board of Directors
Breeders Invitational
Bakersfield, California

We have reviewed the accompanying financial statements of Breeders Invitational (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2015, and the related combined statements of activities and change in net assets, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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's responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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.

Other Matter

Our review for the year ended December 31, 2015 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. We are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

BARBICH HOOPER KING**DILL HOFFMAN****Accountancy Corporation**

Bakersfield, California

February 25, 2016

Breeders Invitational
Combined Statement of Financial Position
December 31, 2015
See Independent Accountants' Review Report

ASSETS

Cash and cash equivalents	\$ 428,508
Accounts receivable	443,128
Deposits and prepaid expenses	10,750
Investments, at fair value	<u>771,822</u>
	<u><u>\$ 1,654,208</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Other current liabilities	<u>\$ 7,481</u>
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Net Assets

Unrestricted	<u>1,646,727</u>
	<u><u>\$ 1,654,208</u></u>

See Notes to Combined Financial Statements.

Breeders Invitational
Combined Statement of Activities and
Change in Net Assets
For the Year Ended December 31, 2015
See Independent Accountants' Review Report

Change in unrestricted net assets:

Revenues:

Derby slot income	\$ 1,961,499
Stallion subscriptions	307,769
Show income	332,868
Sale incentive income	69,300
Sponsorship income	61,390
Net realized and unrealized gain on investments	2,874
Interest income	21,817
Western retail exhibit	9,156
Other income	465
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Total revenues	2,767,138
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Expenses:

Management and general	172,745
Breeders Invitational Derby	2,670,452
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Total expenses	2,843,197
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<i>Change in unrestricted net assets</i>	(76,059)
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<i>Net assets, beginning of the year</i>	1,722,786
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<i>Net assets, end of the year</i>	\$ 1,646,727
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See Notes to Combined Financial Statements.

Breeders Invitational

***Combined Statement of Cash Flows
For the Year Ended December 31, 2015
See Independent Accountants' Review Report***

Cash flows from operating activities:

Change in net assets \$ (76,059)

***Adjustments to reconcile change in net assets
to net cash used in operating activities:***

Net realized and unrealized gain on investments (2,874)

Changes in operating assets and liabilities:

Accounts receivable (45,431)

Deposits and prepaid expenses (5,713)

Other current liabilities 1,936

Net cash used in operating activities (128,141)

Cash flows from investing activities:

Purchase of investments (294,777)

Sale of investments 414,172

Net cash provided by investing activities 119,395

Net decrease in cash and cash equivalents (8,746)

Cash and cash equivalents at beginning of year 437,254

Cash and cash equivalents at end of year \$ 428,508

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 2012.

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, 2015, 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 \$16,752 for the year ended December 31, 2015.

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 Equivalents

Cash and cash equivalents included the following at December 31, 2015:

Working checking account	\$ 209,590
Savings account	57,198
Money market account	161,720
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	\$ 428,508

Note 3. Fair Value of Financial Instruments

The 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
See Independent Accountants' Review Report

Assets recorded at fair value on a recurring basis, were presented on the Organization's combined statement of financial position as of December 31, 2015 as follows:

	<i>Fair Value</i>	<i>Fair Value</i> <i>Measurements Using:</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Government bonds	\$ 332,769	\$ 332,769	\$ -	\$ -
Certificates of deposit	439,053	439,053	-	-
	<u>\$ 771,822</u>	<u>\$ 771,822</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, 2015.

Note 4. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2015 relate to the following subscription years:

2012 and prior	\$ 10,269
2013	1,250
2014	16,375
2015	136,125
2016	143,750
	<u>\$ 307,769</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, 2015.

Note 6. Related Party Transactions

As approved by the Board of Directors, during the year ended December 31, 2015, the Organization made payments of \$100,000 to a company owned by an officer for management services performed.

Note 7. Subsequent Events

The Organization has evaluated events and transactions subsequent to December 31, 2015 through, February 25, 2016, 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, 2015
See Independent Accountants' Review Report***

	<i>Management and General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 12,512	\$ 4,240	\$ 16,752
Arena grounds	-	200,840	200,840
Awards	-	50,773	50,773
Bank fees	47	288	335
Board meetings	3,488	-	3,488
Cattle and livestock expense	-	460,342	460,342
Computer	5,842	2,787	8,629
Dues and subscriptions	346	-	346
Insurance	1,474	2,640	4,114
Judges	-	75,537	75,537
Miscellaneous	3,173	-	3,173
NCHA fees	-	29,005	29,005
Office expense	2,908	-	2,908
Outside services	100,000	-	100,000
Payouts	-	1,727,548	1,727,548
Postage	3,561	-	3,561
Professional fees	9,100	-	9,100
Promotional expense	13,898	-	13,898
Rent	10,800	-	10,800
Show expense	-	21,891	21,891
Signage	-	7,816	7,816
Staffing	-	85,473	85,473
Supplies	-	872	872
Telephone	3,942	-	3,942
Travel	542	400	942
Utilities	1,112	-	1,112
	<u>\$ 172,745</u>	<u>\$ 2,670,452</u>	<u>\$ 2,843,197</u>

See Notes to Combined Financial Statements.