

Breeders Invitational

Combined Financial Statements

December 31, 2016

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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, 2016, 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 these 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.

Report on Supplementary Information

Our review for the year ended December 31, 2016 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**

Barbich Hooper King

Bakersfield, California
April 17, 2017

Breeders Invitational

*Combined Statement of Financial Position
December 31, 2016
See Independent Accountants' Review Report*

ASSETS

Current Assets

Cash and cash equivalents	\$ 535,386
Accounts receivable	351,883
Deposits and prepaid expenses	12,500
	<hr/>
	899,769
	<hr/>
<i>Investments</i> , at fair value	<hr/> 662,493
	<hr/>
	\$ 1,562,262
	<hr/>

LIABILITIES AND NET ASSETS

Liabilities

Other current liabilities	\$ 9,896
	<hr/>

Net Assets

Unrestricted	<hr/> 1,552,366
	<hr/>
	\$ 1,562,262
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See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Activities and
Change in Net Assets
For the Year Ended December 31, 2016
See Independent Accountants' Review Report*

Change in unrestricted net assets:

Revenues:

Derby slot income	\$ 1,441,519
Stallion subscriptions	353,736
Show income	290,207
Sale incentive income	163,350
Sponsorship income	63,759
Net realized and unrealized loss on investments	(3,949)
Interest income	19,595
Western retail exhibit	9,916
Other income	<u>1,000</u>
Total revenues	<u>2,339,133</u>

Expenses:

Management and general	174,382
Breeders Invitational Derby	<u>2,259,112</u>
Total expenses	<u>2,433,494</u>

Change in unrestricted net assets (94,361)

Net assets, beginning of the year 1,646,727

Net assets, end of the year \$ 1,552,366

See Notes to Combined Financial Statements.

Breeders Invitational

*Combined Statement of Cash Flows
For the Year Ended December 31, 2016
See Independent Accountants' Review Report*

Cash flows from operating activities:

Change in net assets	\$ (94,361)
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***Adjustments to reconcile change in net assets
to net cash provided by operating activities:***

Net realized and unrealized loss on investments	3,949
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Changes in operating assets and liabilities:

Accounts receivable	91,245
Deposits and prepaid expenses	(1,750)
Other current liabilities	<u>2,415</u>

Net cash provided by operating activities	<u>1,498</u>
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Cash flows from investing activities:

Purchase of investments	(347,403)
Sale of investments	<u>452,783</u>

Net cash provided by investing activities	<u>105,380</u>
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Net increase in cash and cash equivalents 106,878

Cash and cash equivalents at beginning of year 428,508

Cash and cash equivalents at end of year \$ 535,386

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.

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. These categories are defined as follows:

Unrestricted net assets – This component of net assets consist of resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Notes to Combined Financial Statements
See Independent Accountants' Review Report

Temporarily restricted net assets – This component of net assets consist of resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due.

Permanently restricted net assets – This component of net assets consist of resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

During the year ended December 31, 2016, 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.

Cash and cash equivalents:

For purposes of the combined 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 combined statement of activities.

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 \$19,058 for the year ended December 31, 2016.

Notes to Combined Financial Statements
See Independent Accountants' Review Report

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.

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, 2016:

Working checking account	\$ 249,957
Savings account	233,437
Money market account	51,992
	<hr/> <u>\$ 535,386</u>

Note 3. Fair Value of Financial Instruments

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 one 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, 2016 as follows:

	<i>Fair Value</i> <i>Measurements Using:</i>			
	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Government bonds	\$ 327,935	\$ 327,935	\$ -	\$ -
Certificates of deposit	334,558	334,558	-	-
	<u>\$ 662,493</u>	<u>\$ 662,493</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, 2016.

Note 4. Stallion Subscriptions

Stallion subscriptions earned during the year ended December 31, 2016 relate to the following subscription years:

2013 and prior	\$ 51,986
2014	(1,250)
2015	28,500
2016	139,500
2017	<u>135,000</u>
	<u><u>\$ 353,736</u></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, 2016.

Note 6. Related Party Transactions

As approved by the Board of Directors, during the year ended December 31, 2016, the Organization made payments of \$100,000 to a company owned by an officer of the Organization 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, 2016 through, April 17, 2017, the date the combined financial statements were available to be issued, noting no significant items requiring further discussion.

Breeders Invitational

Combined Schedule of Functional Expenses

For the Year Ended December 31, 2016

See Independent Accountants' Review Report

	<i>Management and General</i>	<i>Breeders Invitational Derby</i>	<i>Total</i>
Advertising	\$ 14,818	\$ 4,240	\$ 19,058
Arena grounds	-	201,196	201,196
Awards	-	47,979	47,979
Bank fees	95	278	373
Board meetings	3,073	-	3,073
Cattle and livestock expense	-	294,194	294,194
Computer	5,815	8,150	13,965
Dues and subscriptions	145	-	145
Insurance	1,560	2,512	4,072
Judges	-	83,555	83,555
Miscellaneous	1,252	-	1,252
NCHA fees	-	26,064	26,064
Office expense	2,007	-	2,007
Outside services	100,000	-	100,000
Payouts	-	1,469,590	1,469,590
Postage	3,932	-	3,932
Professional fees	8,740	-	8,740
Promotional expense	15,022	455	15,477
Rent	10,800	-	10,800
Show expense	-	20,276	20,276
Signage	-	2,060	2,060
Staffing	-	97,842	97,842
Supplies	-	721	721
Telephone	3,809	-	3,809
Travel	2,331	-	2,331
Utilities	983	-	983
	<hr/> <u>\$ 174,382</u>	<hr/> <u>\$ 2,259,112</u>	<hr/> <u>\$ 2,433,494</u>

See Notes to Combined Financial Statements.