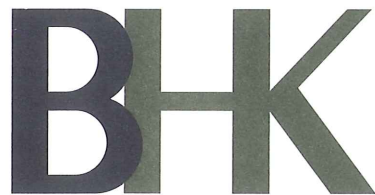


***Breeders Invitational***  
***Combined Financial Statements***  
***December 31, 2017***

## ***C O N T E N T S***

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BARBICH HOOPER KING  
DILL HOFFMAN  
ACCOUNTANCY CORPORATION

**Independent Accountants' Review Report**

Board of Directors  
Breeders Invitational  
Bakersfield, California

We have reviewed the accompanying combined financial statements of Breeders Invitational (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2017, 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 combined 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 combined 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 combined 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 Combined Supplementary Information**

Our review for the year ended December 31, 2017 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**

A handwritten signature in dark ink, appearing to read "Barbich Hooper King", written over the printed name.

Bakersfield, California  
April 11, 2018

*Breeders Invitational*  
*Combined Statement of Financial Position*  
*December 31, 2017*  
*See Independent Accountants' Review Report*

***ASSETS***

***Current Assets***

Cash and cash equivalents	\$ 519,135
Accounts receivable	255,578
Deposits and prepaid expenses	8,300
	<u>783,013</u>

<i>Investments</i> , at fair value	<u>572,465</u>
	<u><u>\$ 1,355,478</u></u>

***LIABILITIES AND NET ASSETS***

***Liabilities***

Other current liabilities	<u>\$ 7,433</u>
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***Net Assets***

Unrestricted	<u>1,348,045</u>
	<u><u>\$ 1,355,478</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, 2017**  
**See Independent Accountants' Review Report**

***Change in unrestricted net assets:***

***Revenues:***

Derby slot income	\$ 1,580,233
Stallion subscriptions	385,633
Show income	310,353
Sale incentive income	72,050
Sponsorship income	58,750
Net realized and unrealized gain on investments	5,622
Interest income	19,601
Western retail exhibit	8,629
Other income	3,700

Total revenues	2,444,571
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***Expenses:***

Management and general	284,623
Breeders Invitational Derby	2,364,269

Total expenses	2,648,892
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<b><i>Change in unrestricted net assets</i></b>	(204,321)
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<b><i>Net assets, beginning of the year</i></b>	1,552,366
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<b><i>Net assets, end of the year</i></b>	\$ 1,348,045
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*See Notes to Combined Financial Statements.*

*Breeders Invitational*

*Combined Statement of Cash Flows  
For the Year Ended December 31, 2017  
See Independent Accountants' Review Report*

*Cash flows from operating activities:*

Change in net assets \$ (204,321)

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

Net realized and unrealized gain on investments (5,622)

*Changes in operating assets and liabilities:*

Accounts receivable 96,305

Deposits and prepaid expenses 4,200

Other current liabilities (2,463)

Net cash used in operating activities (111,901)

*Cash flows from investing activities:*

Sale of investments 95,650

Net cash provided by investing activities 95,650

*Net decrease in cash and cash equivalents* (16,251)

*Cash and cash equivalents at beginning of year* 535,386

*Cash and cash equivalents at end of year* \$ 519,135

*See Notes to Combined Financial Statements.*

**Breeders Invitational**  
**Notes to Combined Financial Statements**  
**December 31, 2017**  
**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 it's 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***  
***December 31, 2017***  
***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, 2017, 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.

*Notes to Combined Financial Statements*  
*December 31, 2017*  
*See Independent Accountants' Review Report*

***Advertising:***

The Organization expenses advertising costs as they are incurred. Advertising expense was \$15,571 for the year ended December 31, 2017.

***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 15<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> of each year. Fees not collected by December 31<sup>st</sup> 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 an allowance is not necessary at December 31, 2017. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debt expense.

***Note 2. Cash and Cash Equivalents***

Cash and cash equivalents included the following at December 31, 2017:

Working checking account	\$ 241,989
Savings account	166,760
Money market account	17,369
	<hr/>
	\$ 519,135

***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:

**Notes to Combined Financial Statements**  
**December 31, 2017**  
**See Independent Accountants' Review Report**

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.

Assets recorded at fair value on a recurring basis were presented on the Organization's combined statement of financial position as of December 31, 2017 as follows:

		<b><i>Fair Value</i></b>		
		<b><i>Measurements Using:</i></b>		
	<b><i>Fair Value</i></b>	<b><i>Level 1</i></b>	<b><i>Level 2</i></b>	<b><i>Level 3</i></b>
Government bonds	\$ 337,057	\$ 337,057	\$ -	\$ -
Certificates of deposit	235,408	235,408	-	-
	<u>\$ 572,465</u>	<u>\$ 572,465</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, 2017.

**Note 4. Stallion Subscriptions**

Stallion subscriptions earned during the year ended December 31, 2017 relate to the following subscription years:

2014 and prior	\$ 11,250
2015	-
2016	38,375
2017	2,500
2018	333,508
	<u>\$ 385,633</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 \$11,500 for the year ended December 31, 2017.

*Notes to Combined Financial Statements*  
*December 31, 2017*  
*See Independent Accountants' Review Report*

***Note 6. Related Party Transactions***

As approved by the Board of Directors, during the year ended December 31, 2017, the Organization made payments of \$100,000 to a company owned by an officer of the Organization for management services performed.

***Note 7. Subsequent Events***

The Organization has evaluated events and transactions subsequent to December 31, 2017 through, April 11, 2018, 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, 2017  
See Independent Accountants' Review Report***

	<b><i>Management and General</i></b>	<b><i>Breeders Invitational Derby</i></b>	<b><i>Total</i></b>
Advertising	\$ 11,331	\$ 4,240	\$ 15,571
Arena grounds	-	218,955	218,955
Awards	-	52,754	52,754
Bank fees	327	193	520
Bad debt	110,659	-	110,659
Board meetings	1,174	-	1,174
Cattle and livestock expense	-	327,242	327,242
Computer	6,677	11,108	17,785
Dues and subscriptions	416	-	416
Insurance	1,560	2,087	3,647
Judges	-	75,843	75,843
Miscellaneous	2,737	-	2,737
NCHA fees	-	27,265	27,265
Office expense	3,985	-	3,985
Outside services	100,000	-	100,000
Payouts	-	1,533,466	1,533,466
Postage	3,659	-	3,659
Professional fees	8,100	-	8,100
Promotional expense	16,805	366	17,171
Rent	11,500	-	11,500
Show expense	-	23,426	23,426
Signage	-	1,943	1,943
Staffing	-	84,565	84,565
Supplies	-	816	816
Telephone	3,760	-	3,760
Travel	1,153	-	1,153
Utilities	780	-	780
	<u>\$ 284,623</u>	<u>\$ 2,364,269</u>	<u>\$ 2,648,892</u>