

**Palomino Horse Breeders of America, Inc.**

*Financial Statements With  
Independent Auditor's Report*

**For the Years Ended  
December 31, 2005 and 2004**

**Palomino Horse Breeders of America, Inc.**  
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**December 31, 2005 and 2004**

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## Independent Auditor's Report

Board of Directors  
Palomino Horse Breeders of America, Inc.

We have audited the accompanying statements of financial position of the Palomino Horse Breeders of America, Inc. as of December 31, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Palomino Horse Breeders of America's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Palomino Horse Breeders of America's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomino Horse Breeders of America, Inc. as of December 31, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Regier Carr & Monroe LLP*

November 7, 2006  
Tulsa, Oklahoma

**Palomino Horse Breeders of America, Inc.**  
**Statements of Financial Position**  
**December 31, 2005 and 2004**

<b>Assets</b>	<b>2005</b>	<b>2004</b>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 38,042	\$ 21,953
Certificates of deposit	319,283	304,118
Accounts receivable	6,675	3,578
<i>Total Current Assets</i>	<u>364,000</u>	<u>329,649</u>
<i>Property and Equipment, net</i>		
Land	26,000	26,000
Building and improvements	152,052	152,052
Computer equipment	279,976	257,885
Furniture and fixtures	77,342	77,113
Fine art	43,045	40,100
	<u>578,415</u>	<u>553,150</u>
Less: Accumulated depreciation	<u>(379,506)</u>	<u>(353,764)</u>
<i>Property and Equipment, net</i>	198,909	199,386
Other assets	20,159	15,259
<b>Total Assets</b>	<b><u>\$ 583,068</u></b>	<b><u>\$ 544,294</u></b>
<b>Liabilities and Net Assets</b>		
<i>Current Liabilities</i>		
Accounts payable	\$ 22,585	\$ 16,884
Accrued liabilities	25,783	15,556
Deferred Income	106,496	125,335
<i>Total Current Liabilities</i>	<u>154,864</u>	<u>157,775</u>
<i>Net Assets</i>		
Unrestricted	<u>428,204</u>	<u>386,519</u>
<i>Total Net Assets</i>	<u>428,204</u>	<u>386,519</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 583,068</u></b>	<b><u>\$ 544,294</u></b>

**Palomino Horse Breeders of America, Inc.**  
**Statements of Activities**  
**For the Years Ended December 31, 2005 and 2004**

<b>Changes in Net Assets</b>	<b>2005</b>	<b>2004</b>
<i>Support and Revenue</i>		
Horse show	\$ 421,912	\$ 408,229
Membership services	197,852	218,789
Administration fees and other	132,326	113,956
Registration and transfer	85,044	86,702
Magazine subscriptions	72,095	65,372
Alternate program	71,358	93,715
Sponsors	18,972	16,857
Incentive program	15,645	0
Interest income	7,157	3,420
<b>Total Unrestricted Support</b>	<b>1,022,361</b>	<b>1,007,040</b>
<i>Program Expenses</i>		
Horse show	369,346	369,886
Membership services	84,895	111,005
Magazine	83,737	97,593
Alternate program	55,268	69,794
Registration and transfer	50,899	61,366
Marketing	14,879	8,489
Incentive program	15,655	0
<b>Total Program Expenses</b>	<b>674,679</b>	<b>718,133</b>
<i>Management and General Expenses</i>		
Occupancy	69,553	69,144
Convention and meeting	56,151	48,952
Accounting	43,677	42,243
Administrative	40,525	57,049
Employee benefits & payroll taxes	33,466	33,693
Depreciation	25,739	15,516
Professional services	25,181	26,220
Data processing	11,705	10,527
<b>Total Management &amp; General Expenses</b>	<b>305,997</b>	<b>303,344</b>
<b>Total Expenses</b>	<b>980,676</b>	<b>1,021,477</b>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>41,685</b>	<b>(14,437)</b>
<b>Unrestricted Net Assets at Beginning of Year</b>	<b>386,519</b>	<b>400,956</b>
<b>Unrestricted Net Assets at End of Year</b>	<b>\$ 428,204</b>	<b>\$ 386,519</b>

**Palomino Horse Breeders of America, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2005 and 2004**

<b>Cash Flows from Operating Activities</b>	<b>2005</b>	<b>2004</b>
Change in net assets	\$ 41,685	\$ (14,437)
<i>Adjustments to reconcile change in net assets to net cash used by operating activities</i>		
Depreciation expense	25,739	15,516
Changes in assets and liabilities:		
Accounts receivable and other assets	(7,997)	(12,576)
Accounts payable and accrued expenses	15,931	(15,903)
Deferred income	(18,839)	3,411
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>56,519</b>	<b>(23,989)</b>
 <b>Cash Flows from Investing Activities</b>		
Purchases of certificates of deposit	(161,000)	(145,000)
Maturities and redemptions of certificates of deposit	145,835	223,101
Purchase of property and equipment	(25,265)	(50,506)
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>(40,430)</b>	<b>27,595</b>
 <i>Net Increase in Cash and Cash Equivalents</i>	 16,089	 3,606
Cash and Cash Equivalents, Beginning of Year	21,953	18,347
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 38,042</b>	<b>\$ 21,953</b>

**Palomino Horse Breeders of America, Inc.**  
**Notes to Financial Statements**

***SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES***

***Organization and Nature of Operations***

Palomino Horse Breeders of America, Inc. (herein referred to as “PHBA”) is a nonprofit organization, formed for the purpose of providing for the registration, preservation of purity of blood, and improvement in breeding of Palomino horses. The organization is supported mainly through membership dues, breed registration fees, and show entry fees. PHBA sponsors an annual World Show where members enter their registered horses for competition in various categories. The international headquarters is currently located in Tulsa, Oklahoma. PHBA has a network of Affiliate Palomino Associations in over thirty states across the U.S. These Associations link the member to the PHBA on a state or regional level. Affiliate Palomino Associations host horse shows, fund raising projects, clinics, futurities, and family activities.

***Cash and Cash Equivalents***

Palomino Horse Breeders of America, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***Property and Equipment***

Purchased property and equipment are carried at cost, net of accumulated depreciation. Fine art is not depreciated. Donated property and equipment are carried at fair value, as of the date of the gift, net of accumulated depreciation. Property and equipment are depreciated by the straight-line method over the estimated useful lives of the respective assets, as follows:

Building & Improvements	40 years
Furniture & fixtures	5 years
Computer equipment	3 years

The Palomino Horse Breeders of America, Inc. charges costs of repairs and maintenance to operations as incurred and capitalizes the costs of replacements, renewals, and betterments.

***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, gains and losses are reported based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the organization and changes therein are classified as follows:

- Unrestricted Net Assets - These assets represent those which are available to the Palomino Horse Breeders of America, Inc. for normal operations and are not subject to donor-imposed restrictions.

***Contributions***

Contributions are defined as, “an unconditional transfer of cash or other assets to an entity or a settlement or cancellations of its liabilities in a voluntary non-reciprocal transfer by another entity acting other than as an owner”. Other assets include, “securities, land, buildings, use of facilities or utilities, material and supplies, intangible assets, services, and unconditional promises to give those assets in the future”. Contributions are measured and recorded at their fair values.

**Palomino Horse Breeders of America, Inc.**  
**Notes to Financial Statements**

***Income Taxes***

Palomino Horse Breeders of America, Inc. is exempt from federal income tax under Section 501(c)(5) of the Internal Revenue Code. The organization is required to file an annual information return.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities within the financial statements. Actual results could differ from those estimates.

***Advertising***

Costs incurred for producing and communicating non-direct advertising are expensed when incurred. Costs incurred for direct response advertising is capitalized and amortized over its estimated useful life. Advertising and marketing expense were \$3,646 and \$2,803 for the years ended December 31, 2005 and 2004, respectively. No advertising costs were capitalized at December 31, 2005 and 2004.

***Reclassification of Prior Year Amounts***

Certain revenue and expense items for the year ended December 31, 2004 have been reclassified to conform to the current year presentation.

***DEFINED CONTRIBUTION PENSION PLAN***

PHBA's employees participate in a simplified employee pension (SEP) plan. The Plan allows for discretionary employer contributions. During the years ended December 31, 2005 and 2004, PHBA recognized expense of \$1,785 and \$1,306, respectively, related to matching contributions.

***CONCENTRATIONS OF CREDIT RISK***

Palomino Horse Breeders of America, Inc.'s primary sources of income are entry fees, membership fees, and magazine subscriptions which are primarily received from individuals and corporations located in North America. This continued support is partially dependent on the United States economy and the continued interest in the breeding of Palomino horses.

Palomino Horse Breeders of America, Inc. has cash deposits at banks. Deposit accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$119,283 and \$146,875 as of December 31, 2005 and 2004, respectively. Management does not believe that the banks holding the deposits represent a significant credit risk.