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June 25, 2011

VIA ELECTRONIC MAIL AND U.S. MAIL

Mr. Stephen A. Houston, Esq.  
Stoll Keenon Ogden PLLC  
2000 PNC Plaza  
500 West Jefferson Street  
Louisville, KY 40202  
[Stephen.Houston@skofirm.com](mailto:Stephen.Houston@skofirm.com)

Re: American Saddlebred Horse Association, Inc. v. Edward R. Bennett, et al.

Dear Stephen:

We appreciate the opportunity to meet with you and party representative of the Appellee Members, Edward R. Bennett, during the document inspection on June 15, 2011. As a follow up to our late afternoon meeting on June 15, you made several supplemental and additional document requests for "financial records." We **mutually agreed** that ASHA would outline these requests as we understand them and to advise of ASHA's position on responding to each and every one in a subsequent letter. ASHA representatives and counsel have worked diligently over the last week to honor this agreement as is clearly evident from the enumerated response to each of your requests below.

We further understood you and your representatives were not able to review all of the ASHA documents provided for inspection and copied for your convenience on June 15. We agreed to make the documents previously produced available for a continued inspection at ASHA's corporate offices upon a mutually agreeable date and time.

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## BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 2

We are now in receipt of your correspondence received yesterday, June 24, 2011, which frankly is unexpected and grossly misrepresents the discussion we had at the June 15 meeting. This letter under your signature contains numerous misstatements and errors of fact and purposely omits any reference to the mutual understanding we reached at the end of the day on June 15. Your letter is written to inflame the matter rather than to further the Appellee Members' stated purpose for their inspection of ASHA's books and records. ASHA will address and correct each of these errors and omissions directly in a subsequent letter to you early next week.

With regard to the response below, we have categorized your requests made in the late afternoon of the June 15 document inspection as either a "supplemental" or an "additional" request. A "supplemental request" is one which derives from the previously enumerated requests served upon ASHA in the pending litigation and ordered produced under the Opinion, Order and Judgment of the Fayette Circuit Court entered on December 2, 2010 or the Court's Final Judgment and Order of January 6, 2011 ("Fayette Circuit Court orders"). An "additional request" is a request that was never made in the pending litigation and is therefore outside the scope and relevant time period of the Fayette Circuit Court orders. ASHA will consider additional requests for books and records only upon a written demand which states with particularity the documents sought to be examined and a proper purpose for each request pursuant to KRS §273.233.

**1. A copy of the most current independent audit of ASHA.**

ASHA has in the past made available to its members the most current audited financials either by publication in its magazine or by placing the information on its website. Consistent with its past practice, ASHA will again publish its financials audited by Dean, Dorton, Allen, Ford, PLLC.

In response to the request herein, we are enclosing the Audit Report and related Financial Statements of ASHA for the years ended Dec. 31, 2010 and 2009 as Exhibit ("Ex.") A, bates-labeled ASHA 024049-024065, to this correspondence. Please note with particular attention the "Independent Auditors Report" as prepared by Dean, Dorton, Allen, Ford, PLLC. Dean, Dorton, Allen, Ford, PLLC began auditing the financial results of ASHA in 2010. ASHA changed audit firms last year in conformity with the generally accepted practice of rotating auditors on a periodic basis. Dean, Dorton, Allen, Ford, PLLC is a significantly larger audit firm than previously used by ASHA, with offices in Lexington and Louisville, and has several horse-related and nonprofit organizations as audit clients.

We also call your attention to the specific language in the "Independent Auditor's Report" section of the audit. The report states that "[o]ur responsibility is to express an opinion on these financial statements based on our audit." The report further states:

# BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 3

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement....We believe that our audit provides a reasonable basis for our opinion.

The report concludes with “[i]n our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Saddlebred Horse Association, Inc. as of December 31, 2010 and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.”

We believe the Audit Report and related “unqualified opinion” by the independent auditors helps confirm for the entire membership of ASHA that the association is managed properly and addresses the “oversight questions” put forth by the Appellee Members as the stated purpose for their document inspection.

2. **A copy of minutes from the ASHA Board of Directors meetings from January 1, 2006 to the present.**

Copies of minutes from the ASHA Board of Directors meetings are available to all ASHA members in downloadable and printable format from ASHA’s website, [www.asha.net](http://www.asha.net), and are equally available to the Appellee Members. ASHA stands ready to assist the Appellee Members if they encounter any problems obtaining these records on their own.

3. **E-mail correspondence between the former ASHA Executive Director, Alan Balch, and members of the ASHA Executive Committee.**

ASHA produced these records at the June 15 inspection. ASHA will conduct a second search of Mr. Balch’s e-mails to the best of its ability in order to confirm all such documents have been produced. If any additional e-mail correspondence is discovered, ASHA will make copies available at the continued inspection.

4. **Any employment contracts with the current ASHA employees and staff.**

ASHA will provide copies of such employment contracts, if any, for the relevant time period at the agreed upon date and time for the continued inspection.

## BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 4

5. **Attachments to the e-mails reflecting, regarding and relating to correspondence among members of the ASHA executive committee between January 1, 2006 and today.**

ASHA will conduct a search for the attachments to e-mails previously produced at the June 15 document inspection and will make them available for the continued inspection at ASHA's corporate offices upon a date and time mutually agreed upon by the parties.

6. **An electronic download of the ASHA "financial records" from January 1, 2006 to present.**

Members of ASHA's financial management and technology staff spent two full business days attempting to comply with this request. Upon review of the downloaded files, however, ASHA must object to the production of all financial records in this "native" format for numerous reasons. First, it is ultimately more costly and cumbersome to redact personal identifying data, such as social security numbers, and bank account numbers during the process of generating the data in this format than it is to print the documents from the system and perform the redactions manually.

Second, the downloaded file or files will not contain many of the supporting documentation, e.g., invoices, cancelled checks, and the like, that the Appellee Members have been requesting. Thus, the statement in your June 24, 2011, letter that "[i]f ASHA produces all of the records in their native format...the Members' may have few, if any, follow up requests of ASHA" cannot be relied upon. ASHA will ultimately be faced with yet more demands from you and your clients for additional records to support the data provided in the "native" format.

Third, ASHA is obligated to produce books and records that are **true** and **accurate** copies of the original documents. ASHA cannot ensure the ongoing integrity of the data after it is produced in this format. ASHA will produce financial records in hard copy format in compliance with the Fayette Circuit Court orders and pursuant to a member's written request supported by a proper purpose, but ASHA simply cannot produce books and records in a format that is not secure.

Lastly, with respect to producing downloaded financial data from January 1, 2008 to present, this request constitutes an "additional request" not contemplated under the Fayette Circuit Court orders. The Fayette Circuit Court order of December 2, 2010, provides that the Appellee Members "are entitled to inspect and copy any and all books and records of the ASHA and make copies thereof at a reasonable expense pursuant to their enumerated written request (sic) previously submitted." See Opinion, Order and Judgment, entered December 2, 2010, at page 7. Your clients' request for financial data from January 1, 2008 to present in its native format was not included in the "enumerated written request (sic) previously submitted."

## BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.

June 25, 2011

Page 5

ASHA personnel and members of the Board of Directors have spent countless hours preparing to meet the requests of the Appellee Members at the document inspections held prior to this litigation and on June 15, 2011. All financial records from years 2006 and 2007 were reviewed, redacted and produced in hard copy at the June 15 inspection as requested by the Appellee Members in the pending litigation and pursuant to the Fayette Circuit Court orders. Please understand your request for the same data in yet another format, as well as your additional request for years 2008 to present outlined above, requires ASHA to take more time away from serving the entire ASHA membership and preparing for the most important showcase for the Saddlebred breed, the 2011 World Championship Horse Show, August 21 through 27, 2011.

Accordingly, so as not to be taken further away from its charitable and educational purpose, ASHA must now inquire on behalf of its entire membership whether the Appellee Members have been provided enough financial data and other records to confirm the association is being operated in a manner consistent with its educational and charitable purpose. Specifically, ASHA requests that the Appellee Members set forth a proper purpose for this additional request for three more years worth of data for which the most current 2010 audited financials have been provided and to explain why the two years of data, from 2006 to 2007, already provided does not allow the Appellee Members enough information to confirm that ASHA is managed properly. KRS §273.233; See also, Nozik v. Mentor Lagoons Yacht Club, 678 N.E.2d 948 (Ohio Ct. App. 1996) (member of a non-profit corporation did not meet the prerequisite requiring the non-profit corporation to turn over the book and records of the club); Towle v. Robinson Springs Corporation, 719 A.2d 880 (Vt. 1998) (the Court held under a statute containing a proper purpose provision that a purpose based upon claims of mismanagement must be supported by evidence and cannot be used as a means of harassment).

### 7. “Payroll reports” from January 1, 2006 to present.

ASHA attempted to comply with the Appellee Members’ requests and the Fayette Circuit Court orders by providing annual payroll records by individual for the years in question. The Appellee Members now request bi-weekly payroll records, time cards and tracking of vacation and other time of all ASHA employees. This is a supplemental request that will take ASHA staff substantial time to assemble. Nevertheless, in an effort to comply with the Fayette Circuit Court orders and to accommodate the Appellee Members’ request for “financial records,” ASHA will provide such “payroll reports” at an agreed upon date and time for the continued inspection.

With regard to “payroll reports” from January 1, 2008 to present, ASHA requests that the Appellee Members set forth a proper purpose as mandated under KRS §273.233 to warrant taking ASHA and its employees away from the association’s charitable and educational purpose to comply with this additional request.

BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 6

8. **Employee attendance and vacation records of the ASHA employees.**

ASHA will produce copies of employee attendance and vacation records “pursuant to [the] enumerated written request (sic) previously submitted.” ASHA objects to this request generally on the grounds that it is not limited in time or scope. Accordingly, to the extent the Appellee Members’ request for employee attendance and vacation records exceeds the scope and relevant time period of the Fayette Circuit Court orders, ASHA requests that the Appellee Members set forth a **proper purpose**, as mandated by KRS §273.233.

9. **ASHA “financial records” from January 1, 2008 through January 1, 2011.**

The Appellee Members’ request for “financial records” from January 1, 2008 through January 1, 2011, are additional requests not contemplated under the Fayette Circuit Court orders to produce ASHA books and records “pursuant to [the] enumerated written request[s] previously submitted.” Accordingly, ASHA requests that the Appellee Members set forth a **proper purpose** for the additional request for all “financial records” from January 1, 2008 through January 1, 2011, as required under KRS §273.233.

10. **“Board packets” provided to the Directors of ASHA prior to meetings of the ASHA Board of Directors from January 1, 2006 to present.**

ASHA will produce portions of the ASHA “Board packets” from January 1, 2006 to January 1, 2008, which contain information not previously provided under the auspices of other requests. ASHA considers this to be a supplemental request and it will be met at the agreed upon date and time for the continued inspection.

With regard to “Board packets” distributed prior to meetings of the ASHA Board of Directors from January 1, 2008 to present, this request constitutes an additional request not contemplated under Fayette Circuit Court orders. Your clients’ request for “Board packets” distributed prior to meetings of the ASHA Board of Directors from January 1, 2008 to present was not impliedly or expressly included in the “enumerated written request (sic) previously submitted.”

Again, in order to allow ASHA, its Board of Directors and personnel to focus on its charitable and educational purpose, ASHA must inquire on behalf of its entire membership whether the Appellee Members have been provided enough financial data and other records, including the most current independent audit, to determine if the association is being operated in a manner consistent with its educational and charitable purpose. Please set forth a **proper purpose** for the additional request for “Board packets” distributed prior to meetings of the Board of Directors from January 1, 2008 to present as required under KRS §273.233.

## BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 7

11. **All agreements between ASHA and its employees which permit the employee to work outside the Association.**

ASHA will provide the employment contracts, if any, at an agreed upon date and time for the continued inspection. For your convenience, attached as Ex. B, bates-labeled ASHA024046-024048, is a copy of the contract between ASHA and USA Equestrian Trust, Inc., (the "Trust"), wherein the Trust agreed to reimburse ASHA for a shared staffperson and for use of shared office space, equipment, supplies and materials.

12. **A copy of the resignation of former Executive Director of ASHA, Alan Balch, and any Settlement Agreement reached with him after his resignation.**

These documents are outside the scope of the Fayette Circuit Court orders and are the subject of an additional request for which the Appellee Members must state a **proper purpose** under KRS §273.233.

13. **A copy of e-mail correspondence regarding the "Mother Mary" transfer and any e-mail correspondence containing allegations of wrongdoing by members of the ASHA Board of Directors, including potential violations of ASHA and USEF rules by ASHA board members and employees.**

ASHA produced e-mail communications exchanged between and among members of the ASHA Board of Directors at the June 15 document inspection. To the extent this request is seeking disclosure of the same documents again, ASHA objects on the grounds that any such response would be duplicative, cumulative and unduly burdensome on ASHA and its membership. With regard to any allegation of wrongdoing by members of the ASHA's Board of Directors, ASHA encourages the Appellee Members to review the sworn testimony of Ms. Jennifer Wasserzug. During this deposition, counsel for the Appellee Members was given ample time to examine Ms. Wasserzug on the "Mother Mary" transfer (referenced by Mr. Bennett at the June 15 document inspection as an example of "violations" of ASHA and USEF rules) and her testimony under oath and penalty of perjury clearly indicates this particular transfer was appropriate and proper under the exigent circumstances. See Deposition of Jennifer Wasserzug, dated April 8, 2010, pp. 20-23.

To the extent this request seeks production of American Saddlebred Registry, Inc. ("Registry") records, ASHA will not produce Registry records at the continued inspection on the grounds that the Registry is not a party to the pending litigation and is therefore not subject to the Fayette Circuit Court orders. As was stated to you and Mr. Bennett at the June 15 inspection, the Registry is a separate and distinct 501(c)(5) non-profit corporation and is governed by its own Board of Directors. The Registry has no members and is not subject to the mandates of KRS

BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 8

§273.233. Further, the Registry Board of Directors has not otherwise authorized ASHA to permit its membership access to the Registry records. Stated simply, ASHA does not have the authority to produce these records and the Court could not have compelled the Registry to do so as it was not afforded an opportunity to be heard when the declaratory judgment action was briefed and argued before the Court.

14. **All Registry records, including a copy of the “Mother Mary” registry file.**

As stated above, ASHA will not produce Registry records at the continued inspection on the grounds that the Registry is not a party to the pending litigation and is therefore not subject to the Fayette Circuit Court orders.

15. **The Page One invoice for cost of copies made for inspection by the Appellee Members.**

The Appellee Members’ request for a copy of “The Page One” invoice is outside the scope of the Fayette Circuit Court order to produce ASHA books and records “pursuant to [the] enumerated written request[s] previously submitted.” Accordingly, ASHA requests that the Appellee Members set forth a **proper purpose** for the additional request for this document, as mandated by KRS §273.233.

16. **A copy of the litigation hold letter sent to the ASHA directors, officers, and employees at the outset of this litigation.**

This is an additional request and not subject to the Fayette Circuit Court orders. Without waiving this objection, and subject to this objection, ASHA did not issue a litigation hold letter. Rather, counsel for ASHA advised the directors, officers, managers, and employees of the association to preserve all relevant documents for purposes of this litigation.

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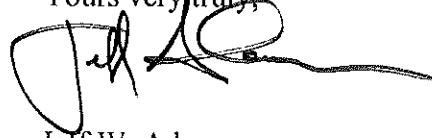
ASHA has provided, or will provide at the continued inspection, all of the financial records necessary for the Appellee Members to conduct their oversight of the Association’s business practices and activities. We look forward to completing the continued inspection of documents previously produced and to meet the supplemental requests outlined above. Please advise on dates when you and your clients are available to continue the document inspection at ASHA’s corporate offices. Also, we look forward to your response to ASHA’s request for a statement of proper purpose for each and every additional document request outlined above.



BOEHL STOPHER & GRAVES, LLP

Stephen A. Houston, Esq.  
June 25, 2011  
Page 9

Yours very truly,

A handwritten signature in black ink, appearing to read "Jeff Adamson", with a long horizontal flourish extending to the right.

Jeff W. Adamson

JWA/jaa

cc: The Honorable Lewis G. Paisley, [lewis.paisley@skofirm.com](mailto:lewis.paisley@skofirm.com)

DEAN || DORTON || ALLEN || FORD

AMERICAN SADDLEBRED HORSE  
ASSOCIATION, INC.

Financial Statements

*Years Ended December 31, 2010 and 2009  
with Independent Auditors' Report Thereon*

EXHIBIT A

ASHA024049

CONTENTS

	<u>Pages</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	2 - 3
Statements of Activities.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 15

Independent Auditors' Report

Board of Directors  
American Saddlebred Horse Association, Inc.  
Lexington, Kentucky

We have audited the accompanying statement of financial position of American Saddlebred Horse Association, Inc. (the Association) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of and for the year ended December 31, 2009, were audited by other auditors whose opinion dated February 10, 2010, expressed an unqualified opinion on those statements. The other auditors reported on the 2009 financial statements prior to the restatement discussed below and in Note 2.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides 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 American Saddlebred Horse Association, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Association has restated its 2009 financial statements during the current year to recognize deferred revenue related to membership income.

June 14, 2011  
Lexington, Kentucky

*Dean Dorton Allen Ford, P.L.L.C.*

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AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Statements of Financial Position

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 62,511	\$ 111,878
Accounts receivable:		
Association	5,011	11,194
Magazine	5,577	6,992
Inventory	2,099	2,841
Prepaid expenses	<u>37,117</u>	<u>20,462</u>
Total current assets	112,315	153,367
Noncurrent assets:		
Investments	980,748	1,173,161
Cash surrender value - life insurance	150,941	142,451
Property and equipment, net	<u>1,073,159</u>	<u>1,096,800</u>
Total noncurrent assets	<u>2,204,848</u>	<u>2,412,412</u>
Total assets	\$ <u>2,317,163</u>	\$ <u>2,565,779</u>

Liabilities and Net Assets	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 52,773	\$ 67,607
Accrued expenses	29,934	111,306
Deferred revenue	226,072	251,694
Current portion of capital lease payable	<u>62,997</u>	<u>59,000</u>
Total current liabilities	371,776	489,607
Capital lease payable, less current portion	<u>388,179</u>	<u>452,381</u>
Total liabilities	759,955	941,988
Net assets:		
Unrestricted:		
Operating	26,918	101,669
Property and equipment, net	<u>1,073,159</u>	<u>1,096,800</u>
Total unrestricted net assets	1,100,077	1,198,469
Temporarily restricted	257,131	225,322
Permanently restricted	<u>200,000</u>	<u>200,000</u>
Total net assets	<u>1,557,208</u>	<u>1,623,791</u>
Total liabilities and net assets	<u>\$ 2,317,163</u>	<u>\$ 2,565,779</u>

*See accompanying notes.*

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Statements of Activities

Years ended December 31, 2010 and 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2009</u>
Revenues and other support:					
Revenues:					
Management fees	\$ 270,345	\$ -	\$ -	\$ 270,345	\$ 344,236
Advertising	194,934	-	-	194,934	212,068
Sale of merchandise and services	56,600	-	-	56,600	69,482
Investment	32,938	59,408	-	92,346	159,468
Special event fees	176,947	-	-	176,947	217,970
Royalties	6,468	-	-	6,468	8,205
Rent	27,507	-	-	27,507	32,757
Net assets released from restriction	<u>27,599</u>	<u>(27,599)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	793,338	31,809	-	825,147	1,044,186
Support:					
Memberships	437,239	-	-	437,239	471,257
Youth programs	33,647	-	-	33,647	30,264
Donations	<u>157,870</u>	<u>-</u>	<u>-</u>	<u>157,870</u>	<u>177,577</u>
	<u>628,756</u>	<u>-</u>	<u>-</u>	<u>628,756</u>	<u>679,098</u>
Total revenues and support	1,422,094	31,809	-	1,453,903	1,723,284
Expenses:					
Program expenses:					
Communications and publications	341,329	-	-	341,329	341,242
Advancement	<u>358,768</u>	<u>-</u>	<u>-</u>	<u>358,768</u>	<u>365,902</u>
Total program expenses	700,097	-	-	700,097	707,144
Administration	<u>820,389</u>	<u>-</u>	<u>-</u>	<u>820,389</u>	<u>851,831</u>
Total expenses	<u>1,520,486</u>	<u>-</u>	<u>-</u>	<u>1,520,486</u>	<u>1,558,975</u>
Change in net assets	(98,392)	31,809	-	(66,583)	164,309
Net assets, beginning of year	<u>1,198,469</u>	<u>225,322</u>	<u>200,000</u>	<u>1,623,791</u>	<u>1,459,482</u>
Net assets, end of year	<u>\$ 1,100,077</u>	<u>\$ 257,131</u>	<u>\$ 200,000</u>	<u>\$ 1,557,208</u>	<u>\$ 1,623,791</u>

See accompanying notes.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Statements of Functional Expenses

Years ended December 31, 2010 and 2009

	Program Services		Supporting Services	Totals	
	Communication and Publication	Advancement	Administration	2010	2009
Salaries	\$ 95,195	\$ 78,982	\$ 328,469	\$ 502,646	\$ 601,341
Payroll taxes	9,211	7,323	33,170	49,704	50,279
Benefits	<u>16,181</u>	<u>13,365</u>	<u>44,092</u>	<u>73,638</u>	<u>100,403</u>
Total salaries and benefits	120,587	99,670	405,731	625,988	752,023
Professional fees	-	-	34,721	34,721	18,750
Legal fees	-	-	79,676	79,676	46,944
Settlement expense	-	-	53,004	53,004	-
Repairs	-	-	4,513	4,513	6,788
Utilities	-	-	7,059	7,059	10,731
Rent	-	-	4,104	4,104	4,676
Office supplies	553	370	10,879	11,802	10,654
Postage	8,597	-	14,833	23,430	25,399
Telephone	-	-	4,734	4,734	6,425
Insurance	-	-	12,003	12,003	9,994
Meetings and conferences	28,996	175,423	9,971	214,390	191,093
Travel	-	3,087	1,328	4,415	7,080
Printing	128,244	687	6,149	135,080	151,312
Equipment repairs	-	-	2,245	2,245	4,147
Dues and subscriptions	-	150	649	799	1,138
Computer fees	-	-	27,995	27,995	32,052
Security	-	-	416	416	416
Photography	-	-	-	-	115
Scholarships	-	27,500	-	27,500	25,898
Commissions	17,801	-	-	17,801	25,148
Contract fee	6,528	7,237	-	13,765	11,745
Depreciation and amortization	-	-	99,699	99,699	94,981
Video and tapes	-	472	-	472	862
Advertising and promotion	-	44,925	228	45,153	11,672
Prizes and awards	-	1,109	748	1,857	1,706
Donations	-	9,500	-	9,500	20,352
Bank fees	-	-	17,584	17,584	18,622
Interest expense	-	-	22,120	22,120	23,935
Lordosis	-	(15,000)	-	(15,000)	15,000
Web page and email	<u>30,023</u>	<u>3,638</u>	<u>-</u>	<u>33,661</u>	<u>29,317</u>
Total	\$ <u>341,329</u>	\$ <u>358,768</u>	\$ <u>820,389</u>	\$ <u>1,520,486</u>	\$ <u>1,558,975</u>

See accompanying notes.



AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (66,583)	\$ 164,309
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	99,699	94,981
Unrealized gains on investments	(74,696)	(146,453)
Increase in cash surrender value life insurance	(8,490)	(8,495)
Increase (decrease) in cash due to changes in:		
Accounts receivable	7,598	5,849
Inventory	742	59
Prepaid expenses	(16,655)	15,768
Accounts payable	(14,834)	(78,640)
Accrued expenses	(81,372)	111,306
Deferred revenue	<u>(25,622)</u>	<u>(25,622)</u>
Net cash (used in) provided by operating activities	(180,213)	133,062
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(76,058)	(188,622)
Decrease in investments, net	<u>267,109</u>	<u>139,161</u>
Net cash provided by (used in) investing activities	191,051	(49,461)
<b>Cash flows from financing activities:</b>		
Payments on capital leases	<u>(60,205)</u>	<u>(57,701)</u>
Net cash used in financing activities	<u>(60,205)</u>	<u>(57,701)</u>
Net (decrease) increase in cash	(49,367)	25,900
Cash, beginning of year	<u>111,878</u>	<u>85,978</u>
Cash, end of year	\$ <u>62,511</u>	\$ <u>111,878</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ 22,120	\$ 23,935

See accompanying notes.

# AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

## Notes to the Financial Statements

### 1. Description of the Organization

The American Saddlebred Horse Association, Inc. (the Association) was incorporated within the Commonwealth of Kentucky on April 18, 1990. The purposes for which the corporation is organized shall be exclusively charitable, educational, and scientific within the meaning of Section 501(c)(3) of the Internal Revenue Code. To that end the corporation shall have the purposes of safeguarding the integrity, and expanding the knowledge of the American Saddlebred; educating the general public in the exhibiting, use, and history of American Saddlebred horses and the improvement of the breed; promoting the humane treatment of American Saddlebred horses; stimulating and promoting interest in all matters pertaining to the history, breeding, exhibiting, and improvement of the breed; encouraging safe equestrian activities; educating youth with respect to safe and proper horsemanship and the showing of horses by promoting the formation of youth associations and the dissemination of educational materials; and awarding scholarships to participants in youth horse programs.

The Association currently provides space for The American Saddlebred Registry, Inc. and the related prize programs - American Saddlebred Registry Futurities, American Saddlebred Registry Sweepstakes and the American Saddlebred Registry Grand National.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Association in the preparation of its financial statements:

#### Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Association.

Temporarily restricted net assets: Net assets whose use by the Association is subject to donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investments

Investments in equity securities having readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in temporarily restricted net assets and then released from restriction. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Cash Surrender Value Life Insurance

The Association has purchased insurance on the life of a former employee. As beneficiary, the Association receives the cash surrender value if the policy is terminated and, upon death of the insured, receives all benefits payable.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at approximate fair value at the date of donation less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Building improvements are amortized over the life of the related building. The gain or loss on the sale of property and equipment is recorded in the year of disposal.

Revenue Recognition

Advertising revenue is recognized once publications are printed. Membership dues are recorded when received and the membership period coincides with the current billing cycle. One-twelfth of membership dues for each billing cycle is recognized monthly as revenue corresponding to the membership period. A deferred revenue account is maintained to account for dues received but not yet earned at year end. Special events revenue is recognized at the time of the event. A deferred revenue account is maintained for fees received but not yet earned at year end.

Income Taxes

The Association is organized and operated for purposes identified in Section 501(c)(3) of the Internal Revenue Code and has been so recognized by the Internal Revenue Service. It is not subject to income tax on its income that is not classified as unrelated business income in as described in Sections 511-514 of the Internal Revenue Code.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Income Taxes, continued

The Association has evaluated the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities. The Association does not believe that there are any uncertain positions on those returns that require recognition or disclosure in the financial statements.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through June 14, 2011, the date that the financial statements were available to be issued. There were no events occurring during the evaluation period that require recognition or disclosure in the financial statements.

Restatement and Reclassifications

During 2010, the Association became aware that deferred revenue related to membership income had not been properly recorded in prior years. The correction of this error was to increase deferred revenue and decrease unrestricted net assets for 2009 and 2008 by \$176,256 and \$196,078, respectively. The effect on the 2009 statement of activities was to increase the change in net assets by \$19,822.

Certain other amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation with no effect on total assets, total liabilities and net assets, or change in net assets.

3. Investments

The fair values of investments as of December 31, 2010 and 2009 are summarized as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010:</u>				
Money market funds	\$ 181,033	\$ 181,033	\$ -	\$ -
Corporate stocks	30,639	30,639	-	-
Mutual funds	<u>769,076</u>	<u>769,076</u>	-	-
Total assets	<u>\$ 980,748</u>	<u>\$ 980,748</u>	<u>\$ -</u>	<u>\$ -</u>

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

3. Investments, continued

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2009:</u>				
Money market funds	\$ 458,945	\$ 458,945	\$ -	\$ -
Corporate stocks	22,622	22,622	-	-
Mutual funds	<u>691,594</u>	<u>691,594</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>1,173,161</u>	\$ <u>1,173,161</u>	\$ <u>-</u>	\$ <u>-</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

4. Donor-Designated Endowments

The Association's endowment consists of two individual funds established for youth, education, handicap riding programs, and genetic research. Its endowment includes donor-restricted funds only. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

4. Donor-Designated Endowments, continued

The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies:* The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5-7%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy:* The Association has a policy of appropriating for distribution each year 5-7% of its endowment fund's fair value of the beginning of each year. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

4. Donor-Designated Endowments, continued

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 129,584	\$ 200,000	\$ 329,584

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 112,063	\$ 200,000	\$ 312,063

Changes in endowment net assets as of December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 112,063	\$ 200,000	\$ 312,063
Net appreciation	-	34,654	-	34,654
Amounts appropriated for expenditure	-	(17,133)	-	(17,133)
Endowment net assets, end of year	\$ -	\$ 129,584	\$ 200,000	\$ 329,584

Changes in endowment net assets as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 46,660	\$ 200,000	\$ 246,660
Net appreciation	-	66,627	-	66,627
Amounts appropriated for expenditure	-	(1,224)	-	(1,224)
Endowment net assets, end of year	\$ -	\$ 112,063	\$ 200,000	\$ 312,063

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

5. Property and Equipment, Net

Property and equipment as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 800,110	\$ 800,110
Building improvements	203,202	195,140
Furniture and equipment	448,693	436,122
Software and web page	<u>260,399</u>	<u>204,974</u>
	1,712,404	1,636,346
Accumulated depreciation and amortization	<u>(639,245)</u>	<u>(539,546)</u>
Property and equipment, net	<u>\$ 1,073,159</u>	<u>\$ 1,096,800</u>

6. Employee Retirement Plan

The Association established a Simple-IRA plan on November 1, 1998 which allows employees to participate with tax deferred contributions and the Association is limited to a 3% employer contribution. Merrill Lynch serves as the trustee of the Association's Simple-IRA plan. The Association's expense was \$12,260 and \$12,821, for the years ended December 31, 2010 and 2009, respectively.

7. Capital Leases

The Association leases building space of approximately 6,275 square feet under a capital lease agreement expiring December 31, 2018. The Association has the option to purchase the leased premises and the undivided one-half interest of all common areas at the end of the 18 year term for a sum of \$1,000. At December 31, 2010 and 2009, the principal balance remaining on this lease was \$434,409 and \$478,437, respectively. As of December 31, 2010, the net book value of the Associations interest in this building is \$183,134.

The Association leases office equipment under a lease expiring December 31, 2011. At December 31, 2010 and 2009, the principal balance remaining on this lease was \$16,767 and \$32,944, respectively. As of December 31, 2010, the total net book value of equipment under capital lease is \$38,841.

Amortization expense on these leased assets is included in depreciation and amortization expense on the statements of functional expenses.



AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

7. Capital Leases, continued

Future minimum payments on capital leases are as follows:

2011	\$	81,752
2012		64,657
2013		64,657
2014		64,657
2015		64,657
Thereafter		<u>193,486</u>
Total minimum lease obligations		533,866
Less amount representing interest		<u>(82,690)</u>
Present value of net minimum lease obligation		451,176
Less current maturities		<u>(62,997)</u>
Total minimum lease obligations		<u>\$ 388,179</u>

8. Related Parties

The Association received \$263,663 and \$315,644 in fees in 2010 and 2009, respectively from the Registry to pay for the time and staffing that Association employees expended doing work for the Registry. As of December 31, 2010 and 2009, the Association had amounts receivable from the Registry of \$4,673 and \$13,409, respectively. The Association also had an agreement with a related party to receive management fees for a shared employee. The Association received fees of \$6,682 and \$28,592 in 2010 and 2009, respectively. This agreement was terminated in February 2010.

9. Deferred Compensation Agreement

On September 10, 1992 the American Saddlebred Horse Association, Inc. entered into a deferred compensation agreement with a former employee. The contract has no payments remaining. The Association funded this contract through a life insurance policy on the life of the employee. As of December 31, 2010 and 2009, the total life insurance protection is \$245,420 with a net cash value of \$150,941 and \$142,451, respectively.

On October 31, 2007, an employment agreement and deferred compensation package was entered into between the Association and a former employee. The contracts had a five year term beginning November 1, 2006 and ending October 31, 2011 that stipulated duties, compensation and deferred compensation, benefits and termination. The employee resigned in February 2010 and this agreement was terminated. Included in 2010 legal expenses is approximately \$50,000 related to an out-of-court settlement agreement with the former executive director.

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.

Notes to the Financial Statements, continued

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Lordosis Fund	\$ 43,068	\$ 43,110
Goth Fund	26,514	20,921
Scholarship	33,510	22,989
Equine Welfare	24,455	26,240
Belle Elegant	89,632	85,636
Genetic Research	<u>39,952</u>	<u>26,426</u>
Total	<u>\$ 257,131</u>	<u>\$ 225,322</u>

Net assets were released from donor restrictions (scholarships, research, educational purposes and other programs) when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors.

Permanently restricted net assets consist of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Belle Elegant	\$ 100,000	\$ 100,000
Genetic Research	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 200,000</u>	<u>\$ 200,000</u>

## AGREEMENT

THIS AGREEMENT is made as of 1 April, 2008 by and between AMERICAN SADDLEBRED HORSE ASSOCIATION, INC., a Kentucky nonprofit corporation (the "ASHA") and USA EQUESTRIAN TRUST, INC., a New York nonprofit corporation (the "Trust").

### Recitals

1. Alan F. Balch ("Balch") is the Executive Secretary of ASHA, a full time employment position.
2. Balch currently is a volunteer director of the Trust. Effective January 2008 Balch was named president of the Trust, which is a volunteer, unpaid position.
3. Balch was elected president of the Trust subject to the condition that the Trust provide him significant administrative assistance at the expense of the Trust.
4. ASHA believes it is in its best interest that Balch accept the position as Trust president, and ASHA is willing to designate one of its employees to provide administrative services for the Trust, as needed, provided the Trust reimburses certain of the ASHA's employee costs.

### Agreement

In consideration of the foregoing recitals and the respective agreements hereinafter set forth, ASHA and Trust agree as follows:

5. The ASHA will designate one of its employees or will hire a new employee to provide administrative services for the Trust and for Balch in his capacity as Trust president. However, at all times such employee will be under the direct supervision and control of ASHA, and not under any supervision or control of the Trust. The employee will be available to render such services on a part-time basis as is mutually agreeable to ASHA and the Trust. Without limiting the foregoing, such employee will continue to serve as an employee of ASHA and will remain on the ASHA payroll, and shall under no circumstances be considered to be an employee of the Trust, which shall have no control over or supervision of the employee. The Trust plans to purchase its own equipment, supplies, and materials. In addition to the services of the employee, ASHA will provide the Trust, to the extent needed, the use of such equipment, supplies, or materials, other than those separately purchased by the Trust, as necessary in connection with the services provided to the Trust pursuant to this agreement.

6. The Trust will reimburse ASHA on a quarterly basis a sum equal to ASHA's costs incurred during the quarter for that portion of the compensation and benefit expenses of such employee allocable to time spent by such employee in performing services for the Trust; provided, such reimbursement will not be less than 50 percent of the total compensation and benefit expenses of such employee. The Trust will also reimburse ASHA for

EXHIBIT B

ASHA024046

the fair market value, as agreed by the Trust and ASHA, of the use of such equipment, supplies, and materials as are provided pursuant to this Agreement, as well as a reasonable allocation of other general overhead as the Trust and ASHA agree. If the Trust and ASHA cannot agree on the allocable employee compensation and benefits and/or the fair market value of the use of such equipment, supplies, and materials, or the allocation of other general overhead, then such values will be determined by an independent appraiser selected by the Trust and ASHA. ASHA will provide the Trust with written invoices of the amounts to be reimbursed at least quarter annually during the term of this Agreement, and the Trust will pay each invoice within thirty (30) days of the date of the invoice.

7. The term of this Agreement will commence on the date of this agreement and continue so long as Balch is serving as president of the Trust; however, either ASHA or the Trust may terminate this agreement on thirty (30) days' written notice to the other party.

8. Neither ASHA nor any of its directors, officers, employees or agents will, by virtue of this Agreement or the arrangements hereunder, be considered employees, principals, partners, or agents of the Trust.

9. Any notice or other communication required or permitted to be given or made under this Agreement by one party to the other shall be in writing and be deemed to have been duly given to be effective (i) on the date of delivery if delivered personally or (ii) when sent by first-class U.S. Mail, postage prepaid, by registered or certified mail, or by confirmed facsimile transmission, or electronic transmission as follows:

If to ASHA to:

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC.  
4083 IRON WORKS PARKWAY  
LEXINGTON, KY 40511  
Attention: President

If to Trust to:

USA EQUESTRIAN TRUST  
c/o Dennis A. Zagroba, Esq.  
Anderson Kill & Olick, P.C.  
1251 Avenue of the Americas  
New York, NY 10020

With a copy to:

Mr. Alan F. Balch, President  
USA Equestrian Trust  
4083 Iron Works Parkway  
Lexington, KY 40511

10. The implementation and performance of this Agreement will at all times be subject to the oversight and review of ASHA and its directors.

11. The failure of any party hereto to enforce any provision of this Agreement or to take action for any violation of this Agreement cannot be construed to be a waiver of such provision or of the right thereafter to enforce same or as a waiver or estoppel as to such violation, and no waiver of any breach shall be construed as an agreement to waive any subsequent breach of the same or any other provision. Any party shall have the right to enforce or take such action for any prior violation or future violation of this Agreement without being subject to the defense of waiver or estoppel.

12. This Agreement will be governed and construed in accordance with the law of Kentucky.

13. This Agreement may be executed in multiple separate counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument.

14. This Agreement may be amended, or terminated prior to the conclusion of its term, only by an agreement in writing duly executed by ASHA and Trust.

15. This Agreement represents the entire agreement between ASHA and Trust with respect to the subject matter of this Agreement.

16. This Agreement has been approved by the boards of directors of ASHA and Trust.

IN WITNESS WHEREOF, the parties have duly executed this Agreement through their duly authorized officers as of the date first above written.

AMERICAN SADDLEBRED HORSE  
ASSOCIATION, INC.

BY: Margaret O. Cronan  
TITLE: President

USA EQUESTRIAN TRUST, INC.

BY: William B. Thomas  
TITLE: Vice President