

NO. 09-CI-5292

FAYETTE CIRCUIT COURT
DIVISION 3
HONORABLE JAMES D. ISHMAEL

AMERICAN SADDLEBRED
HORSE ASSOCIATION, INC.

JUL 21 2011

PLAINTIFF

**AMERICAN SADDLEBRED HORSE ASSOCIATION'S
RESPONSE IN OPPOSITION TO DEFENDANTS' MOTION FOR
THE COURT TO ORDER PLAINTIFF TO APPEAR AND SHOW
CAUSE WHY IT SHOULD NOT BE HELD IN CONTEMPT OF
COURT**

v.

EDWARD R. BENNETT, CARL T.
FISCHER, JR., KRIS KNIGHT, TOM
FERREBEE, SIMON FREDRICKS,
M.D. AND LYNN W. VIA

DEFENDANTS

Comes the Plaintiff/Appellant, American Saddlebred Horse Association (hereinafter "ASHA"), by counsel, and for its Response in Opposition to Defendants'/Appellees' (hereinafter "Appellee members") Motion for the Court to Order Plaintiff to Appear and Show Cause Why It Should Not be Held in Contempt of Court, states as follows:

I. INTRODUCTION

The Appellee members allege in their Motion that ASHA "unilaterally" withheld "large categories of records" in violation of the Opinion, Order and Judgment of this Court entered on December 2, 2010 and the Court's Final Judgment and Order of January 6, 2011 (the "December 2nd Order"). This is false. ASHA declined to produce only those documents falling outside the scope and relevant time period of the December 2nd Order. ASHA produced, or has agreed to

produce at a continued inspection, copies of all books and records “pursuant to [the Appellee members] enumerated written request (sic) previously submitted.”¹

The relief requested in the Appellee members motion would require this Court to expand its order to include “all books and records” for an indefinite period of time and regardless of whether a proper purpose is given. This Court was divested of jurisdiction to grant any such relief when ASHA filed its notice of appeal. The Court can only enforce its Order as written.

Lastly, the Appellee members’ motion for fines and sanctions against ASHA has no merit. ASHA’s good faith attempt to comply with the Court’s December 2nd Order, while also complying with KRS §273.233, does not support the Appellee members’ serious contempt allegations.

For these reasons, and as set forth more fully below, ASHA requests that the Court deny the Appellee members’ motion in its entirety.

II. COUNTERSTATEMENT OF PROCEDURAL HISTORY AND FACTS

As the Court is aware, this declaratory judgment action arose from a dispute regarding what documents must be produced for inspection and copying to members of a non-profit membership association under KRS §273.233. Prior to the filing of the suit, the Appellee members made numerous requests for documents which ASHA believed fell outside the scope of what a non-profit association is required to maintain and produce for inspection to its members under the statute.² The Appellee members made clear their intent to sue under the authority of

¹ See Opinion, Order and Judgment, entered December 2, 2010, at page 7.

² See pre-suit correspondence from Appellee members to ASHA containing enumerated requests for documents, previously attached as exhibits to Plaintiff’s Complaint and Defendants’ Answer and Counterclaim.

KRS §273.233,³ so ASHA filed the subject complaint for declaratory relief to request this Court to interpret KRS §273.233 and to declare the rights and responsibilities of the parties under the statute.⁴ The Appellee members counterclaimed for declaratory relief under the same statute.

Shortly after the initial pleadings and responsive pleadings were served, the Appellee members served their first request for production of documents, which contained enumerated requests identical or substantially similar to the enumerated requests made prior to the suit and giving rise to the litigation.⁵ Upon the Appellees members' motion to compel production of documents, this Court held the enumerated document requests in abeyance pending the Court's interpretation of KRS §273.233 and its ruling on the complaint and counterclaim for declaratory relief. The Court ultimately ruled in favor of the Appellee members and ordered ASHA to respond to the enumerated requests. Under this Court's final judgment of January 6, 2011, which incorporates in full the Opinion, Order and Judgment of December 2, 2010 ("December 2nd Order"), ASHA was specifically directed to do as follows:

Accordingly, it is the Opinion, Order and Judgment of this Court that the Defendants' Members set out above 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.**⁶

ASHA timely appealed from this Order and moved the Kentucky Court of Appeals for a stay in enforcement proceedings pending the final disposition of ASHA's appeal. The Court of Appeals denied the motion. ASHA opted not to pursue interlocutory relief from the Kentucky

³ See, e.g., letters from counsel for Appellee members expressing his clients' clear intent to seek legal recourse unless all documents requested were produced for inspection, attached hereto as Exhibit ("Ex.") A.

⁴ Thus, ASHA did not sue a small number of its members to harass them or otherwise mistreat contributing members of the Association. ASHA filed suit to obtain clarification of the statute.

⁵ See Defendants' First Request for Production of Documents by the ASHA, attached hereto as Ex. B.

⁶ See p. 7 of the December 2nd Order (emphasis added).

Supreme Court pursuant to CR 65.09, believing that it was in the best interests of the entire Association to allow review of the documents that had been requested in the litigation. The appeal remains pending, and ASHA's appellant brief is due August 15, 2011.

On June 15, 2011, ASHA invited the Appellee members to inspect documents responsive to the written requests of the Appellee members.⁷ Copies of these documents were made prior to the inspection and produced to the Appellee members for their convenience.

In their Motion, the Appellee members failed to mention, and at other times distorted, details regarding this June 15 inspection.⁸ For instance, contrary to allegations in the Appellee members' motion, ASHA produced its corporate records as they are categorized and kept in the ordinary course of business. The books and records were not presented in a disorganized fashion as the Appellee members suggest. The only redactions made to the documents prior to the June 15 inspection were those required to protect ASHA's confidences with counsel in this litigation and to prevent identity theft of ASHA, its employees and its members, e.g., attorney-client and work-product information, social security numbers and other personal identifying data, and bank account numbers.⁹ The Appellee members were also permitted to inspect, without copying, the

⁷ The Appellee Members' Motion attaches a June 3, 2011, correspondence from Mr. Houston to counsel for ASHA. This letter grossly mischaracterizes the telephone conversation between Mr. Houston and ASHA's counsel. For instance, ASHA's counsel never stated it would disobey or refuse to comply with this Court's order. Indeed, the exact opposite statement was made. ASHA's counsel has since been forced to communicate with Mr. Houston in writing only. The dispute that has arisen post-judgment is the result of differences in the parties' interpretation of the Court's December 2nd Order, not ASHA's willful disobedience or a flagrant disregard for this Court's order.

⁸ See Section III of their Motion, pp. 2-4.

⁹ There does not appear to be authority that specifically provides for the confidentiality of personal identifying and other sensitive data in the context of non-profit members' inspection rights. However, with respect to public employees, where information is subject to open records inspection, there is a body of Attorney General opinions and case law holding that the purpose of transparency is not fostered by disclosure of information about private citizens which reveals little or nothing about a public agency's own conduct. See, e.g., Zink v. Com., Dept. of Workers' Claims, Labor Cabinet, 902 S.W.2d 825, 828 (Ky. App. 1994).

original documents to confirm only proper redactions were made on June 15 (with exception to attorney-client and work-product privileged documents). Copies of all documents were made for their further use, but they chose not to take them.

At the close of the full-day document inspection, ASHA counsel, a Board representative, and the ASHA Executive Director met with Mr. Edward R. Bennett and counsel for the Appellee members, Stephen Houston, to answer questions about documents produced and to address any further requests for documents prompted by their inspection. The parties subsequently exchanged correspondence committing the Appellee members' requests and ASHA's responses to those requests in writing. Because the Appellee members were unable to inspect the voluminous amount of documents ordered produced by this Court on June 15, ASHA agreed to set another date for the Appellee members to complete their inspection.¹⁰

As evidenced by ASHA's letters to Mr. Houston, dated June 25, 2011, and July 1, 2011, ASHA carefully considered each and every request made before, during and after the June 15 inspection. ASHA agreed to produce any documents not previously requested, but responsive to the previously enumerated requests served upon ASHA in the pending litigation, at a continued inspection. As for requests falling outside the scope and relevant time period of the December 2nd Order, ASHA advised that it had a duty, both to its membership and under KRS §273.233, to request a statement of proper purpose for the inspection of the additional records. ASHA did not deny the Appellee members their right to inspect and copy documents responsive to the enumerated written requests that they previously submitted in this litigation.

In fact, in some instances ASHA went beyond this Court's order to accommodate the Appellee members. For instance, ASHA voluntarily provided the Appellee members with a

¹⁰ See correspondence attached to Appellee members' Motion for the Court to Order Plaintiff to Appear and Show Cause Why it Should Not Be Held in Contempt of Court, Exs. G through I.

copy of the Audit Report and related Financial Statements of ASHA for the years ended Dec. 31, 2010 and 2009 as soon as it became available and prior to its dissemination to the full membership in hopes of addressing the “oversight questions” put forth by the Appellee Members as their stated purpose for the subject document inspection and declaratory judgment action.¹¹ In the 2010 audit report, the independent audit firm of Dean, Dorton, Allen, Ford, PLLC states that “[o]ur responsibility is to express an opinion on these financial statements based on our audit.”

The report further states:

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 a clean opinion, stating “[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.”¹²

Lastly, ASHA agreed by letter to Mr. Houston, dated July 1, 2011, to make all documents previously produced and any documents existing and responsive to the Appellee members’ supplemental requests available for a continued inspection at its corporate offices on July 19, 2011. ASHA also invited the Appellee members to state a proper purpose for each and every

¹¹ See Ex. C to this Response, which was attached to ASHA’s June 25, 2011 correspondence. The Appellee members did not attach it as part of the record for their Motion for the Court to Order Plaintiff to Appear and Show Cause Why it Should Not Be Held in Contempt of Court.

¹² It bears mentioning that the Dean, Dorton, Allen, Ford audit firm is the successor by merger to the firm of Cotton, Allen, the firm the Appellee members retained to review ASHA’s financial records prior to this suit.

additional document request not falling under the scope of this Court's December 2nd Order for the Association's consideration. ASHA fully intends to comply with additional document inspection requests for which a proper purpose is stated under KRS §273.233.

Instead of responding to ASHA's good faith attempts to comply with the Court's order and the inspection statute, the Appellee members filed the present motion.

III. STANDARD OF REVIEW

In their motion, the Appellee members move the Court to enter a contempt order and impose sanctions on ASHA for alleged failures to comply with the Court's December 2nd Order. Contempt requires a showing of "**willful disobedience** toward or **open disrespect** for, the rules or orders of a court." Kentucky River Community Care, Inc. v. Stallard, 294 S.W.3d 29, 31 (Ky. App. 2008) (emphasis added). The motion for fines against ASHA and an award of costs to the Appellee members would, in effect, punish ASHA for past, out of court conduct. These are serious allegations. For such relief to be ordered under Kentucky law, the Court must conduct a hearing and require the Appellee members to present evidence to establish all elements, including willful disobedience, "beyond a reasonable doubt." ASHA has a right to a jury trial if the fine requested is "serious." Id. at 32.

IV. ARGUMENT

A. ASHA Has Complied with the Court's December 2nd Order

The Appellee members Motion alleges that ASHA willfully disobeyed this Court's December 2nd Order by "unilaterally" withholding "large categories of records." These allegations are false. At the June 15 inspection, ASHA declined to produce only those documents falling outside the scope and relevant time period of the December 2nd Order. ASHA produced, or offered to produce in response to supplemental requests at a continued inspection, copies of all books and records "pursuant to [the Appellee Members] enumerated written request

(sic) previously submitted.” For instance, ASHA did not produce books and records from the 2008, 2009, and 2010 accounting years because they were not included among the enumerated document requests served upon ASHA in the pending litigation and were therefore not subject to this Court’s order. ASHA is therefore obligated, both to its entire membership and under KRS §273.233, to request that the Appellee Members set forth a proper purpose for production of these additional documents.¹³

The other set of documents not produced at the June 15 inspection belongs to the American Saddlebred Registry, Inc. (“Registry”). ASHA cannot produce Registry records for a number of reasons. ASHA does not own or control Registry records. The Registry is a separate and distinct 501(c)(5) non-profit corporation and is governed by its own Board of Directors. Moreover, the Registry has no members and is therefore not subject to the mandates of KRS §273.233. See Kentucky Retirement Systems v. Foster, 338 S.W.3d 788, 801 (Ky.App. 2010) (“the inability of the party to obey an order of contempt is ordinarily sufficient to purge it of the contempt charged. ‘Whether civil or criminal, a party cannot be punished for contempt for her failure to perform an act which is impossible.’”). Lastly, the Registry is not a party to the pending litigation and was never afforded an opportunity to be heard when this Court adjudicated the parties’ requests for declaratory relief.

The letter from counsel for the Appellee members, dated June 24, 2011, lists sixteen “examples” of “specific deficiencies” in ASHA’s document production on June 15, but references documents which were in fact never requested during the June 15 meeting or were requested for the first time during the afternoon meeting that day. For instance, the items

¹³ Another example is the request for the Settlement Agreement between ASHA and the former Executive Director, Alan Balch. ASHA objected to this request because it was not requested within the declaratory judgment action (and, in fact, did not even exist at times relevant to their enumerated requests) and because the agreement contains a strict confidentiality provision.

requested under Nos. 9 and 16 in Mr. Houston's June 24, 2011 letter consists of documents that were requested for the very first time in that letter. These records were not requested during the course of this litigation or even discussed during the June 15 document inspection. If the Court follows the Appellee members' logic to its most illogical conclusion, ASHA would be held in contempt for "failing to produce" documents which were never among the enumerated requests at issue in this litigation and not requested until after the Court issued its December 2nd Order.

The Appellee members' accusations must not be taken at face value; ASHA is prepared to demonstrate to the Court its compliance with the Court's December 2nd Order.

B. The Court Does Not Have Jurisdiction to Grant Appellees' Request for Additional Relief

The December 2nd Order directed ASHA to produce for inspection and copying "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." ASHA has produced, or will produce, all documents responsive to the Appellee members' enumerated requests. The Appellee members now request this Court to expand its December 2nd order and apply it prospectively to any and all additional requests for documents, regardless of purpose, for an indefinite period of time. This the Court cannot do. It is well-settled law that "[t]he filing of a notice of appeal divests the trial court of jurisdiction to rule on matters involved in the appeal while the appeal is pending." Young v. Richardson, 267 S.W.3d 690 (Ky. App. 2008); See also, Johnson v. Commonwealth, 17 S.W.3d 109, 113 (Ky. 2000). For instance, this Court has no jurisdiction to vacate, alter or amend its judgment or enter a new judgment in this case. It also bears mentioning that the Court relied on similar authority when it denied ASHA's motion to supplement the record on appeal heard on June 3, 2011.

Accordingly, the Appellee members are requesting relief that this Court simply cannot grant. Going forward, the Appellee members must comply with KRS §273.233 and state a purpose necessitating the additional document inspections. To the extent there is a dispute regarding whether the stated purpose is proper or improper, e.g., allegations of mismanagement, conflicts of interest, fraud, embezzlement, etc., then the Association and its members may either resolve it extrajudicially using the democratic processes within ASHA or one or both parties may seek judicial intervention in a separate lawsuit. This Court, however, no longer has jurisdiction to order additional relief not raised or considered prior to the filing of the notice of appeal.¹⁴

Since the Appellee members are requesting relief this Court has no jurisdiction to grant, their Motion should be denied in its entirety.

C. **Even If the Court Interprets Its Order As Covering All Documents Requested, Including Additional Requests, the Appellee Members Have Failed to Establish Grounds for a Contempt Order**

Contempt is “the **willful disobedience** toward or **open disrespect** for, the rules or orders of a court.” Kentucky River Community Care, Inc., 294 S.W.3d at 31. The case law relied upon by the Appellee members, Crowder v. Rearden, 296 S.W.3d 445 (Ky. App. 2009) and Crook v. Schumann, 167 S.W.2d 836 (Ky. App. 1942), could not be more factually distinguishable from the circumstances in this case. The court in Crowder addressed a divorce action involving a wife who had taken egregious actions, including using “a chain on the front door” to prevent realtors from showing a marital home which was being sold by Court order. Id. at 447. The court in Crook held corporate owners in contempt for ignoring multiple subpoena *duces tecum* issued to

¹⁴ Depending on the circumstances, a hearing may be conducted or a jury impaneled to establish whether the requests are proper or improper. See, e.g., Towle v. Robinson Springs Corporation, 719 A.2d 880 (Vt. 1998) (In applying a state statute containing a similar “proper purpose” requirement, the Court held that a purpose based upon claims of mismanagement must be supported by evidence and cannot be used as a means of harassment).

them to appear and produce corporate records. *Id.* at 838. The Crook court commented that it was aware of “scarcely more flagrant contempts of court than this record displays.” *Id.* at 839.

Here, ASHA personnel and members of the ASHA Board of Directors have spent countless hours attempting 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 orders of this Court. As for requests for “all books and records” from 2008 to present, ASHA had no choice but to 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. The Appellee members’ request for ASHA to compile and produce for inspection and copying an additional three years of books and records places an enormous strain on the limited resources available to ASHA’s nonprofit management and staff. ASHA therefore made the reasonable request that the Appellee Members set forth a proper purpose for their inspection of three more years worth of data, for which the most current 2010 audited financials have already been provided, and to explain why the two years of data, from 2006 to 2007, provided pursuant to orders of this Court do not afford the Appellee members enough information to confirm that ASHA was managed properly during times relevant to their “oversight concerns.”

The Appellee members’ Motion requests sanctions, such as attorney’s fees and expenses, as well as suggests fines are appropriate in this case. Recent Kentucky cases make clear that the present motion for fines against ASHA and an award of costs to the Appellee members would, in effect, punish ASHA for past, out of court conduct. To obtain such relief, the Court must

conduct a hearing and require the Appellee members to present evidence to establish all elements, including willful disobedience, “beyond a reasonable doubt.” For example, in Kentucky River Community Care, Inc., supra, the trial court ordered mediation and directed the parties to file a certificate of full authority for settlement with the trial court prior to mediation. The defendant forwarded the order to its insurance carrier, but did not file a certificate of authority or follow-up with its carrier to file the certificate. The parties mediated as ordered but failed to reach a settlement. Plaintiff filed a motion to compel the filing of the certificate of full authority and requested sanctions against the defendant for failure to comply with court’s mediation order. Id. 30.

The trial court issued a second order, scheduling a second mediation. A week later, the trial court entered an order imposing sanctions on the defendant, including total costs of first mediation, attorney fees, and a fine of \$500 per day “until the parties return[ed] to mediation.” Id. The defendant moved to vacate the trial court order, which the trial court denied. The defendant appealed the order imposing sanctions on the grounds it was punitive and improper.

On appeal, the Court identified two kinds of contempt, stating as follows:

Contempt can be civil or criminal in nature. Civil contempt is “the failure ... to do something under order of court, generally for the benefit of a party litigant.” The U.S. Supreme Court has held that because those cited with contempt “carry ‘the keys of their prison in their own pockets,’ ” the offense is civil rather than criminal contempt. The purpose of holding one in civil contempt is to compel some action.

By contrast, criminal contempt is conduct that demonstrates disrespect toward the court, obstructs justice, or brings the court into disrepute. “If the court’s purpose is to punish, the sanction is criminal contempt.” Criminal contempt may be direct or indirect. Direct contempt involves an act committed in the presence of the court; indirect contempt is a violation that “is committed outside the presence of the court and requires a hearing and the presentation of evidence to establish a violation of the court’s

order.” In the case of criminal contempt, all elements, including willful disobedience, must be proven beyond a reasonable doubt, and the accused has the right to a jury trial if the fine is “serious.”¹⁵

The Court held that the sanctions imposed against the appellant for the total costs of first mediation, attorney fees, and a fine of \$500 per day “until the parties return[ed] to mediation” fell into the criminal contempt category. “[I]t involved punishment for a past act or omission rather than an attempt to compel a future act.” *Id.* at 32. The Court further held that “the failure to file the certification of authority occurred outside the presence of the court...[and therefore] the order was equivalent to a citation for indirect criminal contempt.” *Id.* Thus, the Court of Appeals vacated the trial court order denying appellant’s motion to vacate and remanded the case for trial to determine whether the appellant was guilty of contempt. *Id.*

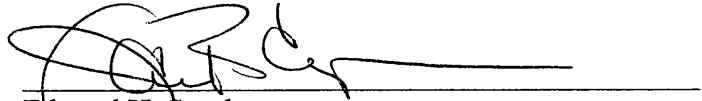
Here, the relief requested is of a similar nature. To impose fines and sanctions based upon a finding that ASHA has willfully violated the Court’s December 2nd order during the June 15 document inspection, the Appellee members must do more than make accusations. If the relief requested by the Appellee members is to punish ASHA for its alleged failure to comply with the Court’s order, then the Appellee members must present evidence in a hearing conducted by this Court to establish that ASHA willfully violated the Court’s December 2nd Order. As evidenced above, circumstances surrounding ASHA’s good faith attempt to comply with the Court’s December 2nd Order, while also complying with KRS §273.233, does not support the Appellee members’ serious contempt allegations. Accordingly, the Appellee members’ request for fines and sanctions against ASHA should be denied.

¹⁵ *Id.* 31-32 (internal citations omitted).

V. CONCLUSION

For the foregoing reasons, the American Saddlebred Horse Association, Inc., respectfully requests the Court enter an Order denying the Appellee members' Motion for the Court to Order Plaintiff to Appear and Show Cause Why it Should Not Be Held in Contempt of Court in its entirety.

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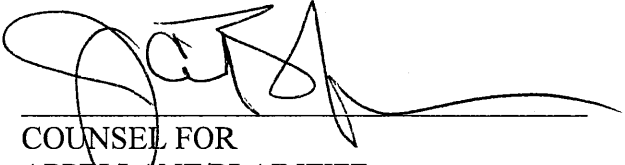
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CERTIFICATE OF SERVICE

It is hereby certified that a true and correct copy of the foregoing was served via first class mail and electronically on this 21st day of July, 2011 to the persons and addresses listed below.

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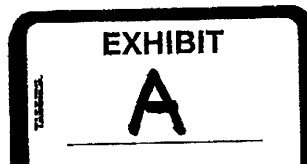
Dear Mr. Streepey:

The American Saddlebred Horse Association, Inc. ("ASHA") is a Kentucky non-profit organization. KRS §273.233 entitles members of a Kentucky non-profit organization, and their representatives, to have access to "all books and records" maintained by the non-profit organization. By letter dated April 20, 2009, certain members of the ASHA asked it to produce documents relating to its financial expenditures. The ASHA agreed to produce some, but not all, of the responsive documents at its office in Lexington on June 15, 2009.

Mr. Walter Newell, CPA, and I appeared at the ASHA office on June 15, 2009 as representatives of certain members of the ASHA. You and the ASHA's controller, Ms. Joan Jones met with us on behalf of the ASHA. Notwithstanding the clear language in KRS §273.233, you confirmed that the ASHA refused to produce all of the records previously requested. Furthermore, the ASHA refused to allow us to retain photocopies of the select documents it was willing to let us see. You stated that you were following instructions provided to you by Mr. Alan Balch. You also stated that it was your understanding that Mr. Balch conferred with some of the Officers or some of the Executive Committee, but not the full Board of Directors, regarding the decision to withhold documents.

Pursuant to KRS §273.233, we continue to demand to inspect and copy all of the books and records previously requested. If possible, we wish to avoid petitioning a court to allow members of this non-profit organization to have access to its books and records. As you and I discussed, please present this issue to the ASHA's Board of Directors for consideration. It is our hope that the ASHA will comply with the law and make its records available to its members.

LEXINGTON + LOUISVILLE + FRANKFORT + HENDERSON



Jefferson K. Streepey, Esq.
June 26, 2009
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You permitted me to ask the ASHA controller, Ms. Joan Jones, questions about some of the ASHA's financial expenditures. Ms. Jones stated that the ASHA pays commissions to some of its employees, but it does not have a formal written policy regarding commissions, including the eligibility of ASHA employees and the amounts available to be earned. Please confirm that the ASHA has no formal written policy regarding commissions. If a written policy regarding commissions exists, please produce a copy of it.

Similarly, Ms. Jones stated that the ASHA has also paid bonuses to some of its employees, but it does not have a formal written policy regarding the payment of bonuses. Please confirm that the ASHA has no formal written policy regarding bonuses. If a formal written policy regarding bonuses does exist, please produce a copy of it.

When asked about a financial expenditure identified as a "draw" of approximately \$6,000, Ms. Jones stated that it was an advance payment to William Wood for potential fundraising commissions. Ms. Jones stated that she did not believe the ASHA memorialized that agreement in writing. Ms. Jones also stated that Mr. Wood was told that he would not need to return the advanced money even if he never earned the commission by raising the necessary amount of funds for the ASHA. Please confirm that the agreement with Mr. Wood was not memorialized in writing. If an agreement was memorialized in writing, please provide a copy of the written agreement.

The letter to the board of directors dated February 10, 2009 from Bennett & Company, CPAs indicates that there is a concern about "segregation of duties" in the ASHA's accounting department. Please provide documents indicating whether this matter is a "control deficiency," "significant deficiency" or a "material weakness" as defined by SAS 112 *Communicating Internal Control Matters Identified in an Audit*. Also, please provide documents indicating the ASHA's investigation into this issue and its efforts to resolve the issue.

Based upon our review of the documents that were produced on June 15, it is apparent that the ASHA should also produce for inspection and copying, without limitation, the 22 categories of invoices and other specific documents discussed below:

✓ 1. Please produce documents indicating where the \$20,000 related to Mr. Balch's annual deferred compensation is accrued in the December 31, 2007 audited financial statements.

✓ 2. Expenditures identified as "Meetings and Conferences" totaled \$222,166 in 2007. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- \$29,522 Kentucky State Fair
 - Saddlebred Daily \$2,970
 - Monday \$593

- Tuesday \$1,317
- Wednesday \$1,317
- Thursday \$1,317
- Friday \$830
- Saturday \$1,264
- Sunday \$1416
- Contract Labor \$2,500
- 06 Ring 1,250
- KSF Results Commission \$2,043
- \$29,010 Youth Conference Expense.
 - Printing cost of \$724
 - Embassy Suites of \$6,525
- \$26,502 Lordosis
- \$40,838 annual meeting expense
 - Embassy Suites \$18,791
 - Convention Sponsors of \$2,070
- \$28,171 Fundraiser Auction
 - Rocking Horse \$2,000
 - Saddle \$1,200
 - Derby Tickets
 - Executive West \$8,293

✓ 3. Meetings and Conferences totaled \$159,865 in 2006. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- \$22,000 American Saddlebred Ball
 - \$12,536
 - \$2,468
- \$35,091 Annual Meeting Expense
 - \$12,418
 - \$7,723

- \$50,211 Kentucky State Fair Expense
 - \$5,775
 - Online Payment \$5,221
 - Online Payment \$2,500
 - L. Weatherman \$2,904

✓ 4. Printing expenditures totaled \$200,796 in 2007. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- \$21,691
- \$12,932
- \$15,751
- \$14,893
- \$45,297
- Susanna Thurston \$15,180
- Susanna Thurston \$6,225
- Marcia Carothers \$5,652

✓ 5. Printing expenses totaled \$180,497 in 2006. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- \$11,015
- \$39,531
- \$19,880
- \$12,442
- \$14,009
- \$13,858
- \$10,458

✓ 6. Contract fees totaled \$9,600 in 2007. Please provide invoices supporting those expenditures. Also, please provide a copy of any agreements with Mae Condon and Brenda Newell:

✓ 7. Contract fees totaled \$78,442 in 2006. Please provide invoices supporting those expenditures.

✓8. Advertising/Promotion totaled \$13,523 in 2007. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- Primea \$1,732
- Advertising \$1,000

✓9. Advertising/Promotion totaled \$63,287 in 2006. Please provide all of the invoices supporting those expenditures including, without limitation, the following:

- Primedi \$1,648
- Derby Tickets \$2,300
- \$2,173 World Equestrian Games

→ ✓10. Bank fees totaled \$19,442 in 2007.

- Please provide copies of bank statements for the months of January 2007 through December 31, 2007.

✓11. Bank fees totaled \$13,442 in 2006.

- Please provide copies of bank statements for the months of January 2006 through December 31, 2006.
- Please provide the invoice supporting the "APS Settlement" charge of \$1,119.

✓12. Interest expenses totaled \$26,179 and \$32,949 for 2007 and 2006, respectively. Please provide a copy of the lease agreement and respective amortization schedule that indicates the necessity of these expenditures.

✓13. Market Research totaled \$12,796 in 2007.

- Please provide all documents supporting those expenditures, including the name and address of all payees.
- Please provide a copy of all agreements and contracts to perform work relating to market research.

✓14. Market Research totaled \$38,721 in 2006.

- Please provide all documents supporting those expenditures, including the name and address of all payees.

- Please provide a copy of all agreements and contracts to perform work relating to market research.
- ✓ 15. Web page/email totaled \$20,136 in 2007.
- Please provide all documents supporting those expenditures, including the name and address of all payees.
 - Please provide a copy of all agreements and contracts to perform work relating to web page / email expenditures.
16. Web page/email totaled \$4,267 in 2006.
- Please provide all documents supporting those expenditures, including the name and address of all payees.
 - Please provide a copy of all agreements and contracts to perform work relating to web page / email expenditures.
- ✓ 17. Salaries for fiscal years 2006, 2007 and 2008
- Please provide invoices and other documents that support these amounts for "administration," "Comm. And Publications" and "advancement."
 - Please provide documents indicating all commissions paid
 - Please provide documents indicating all bonuses paid
 - Please provide all job descriptions, employment agreements and other documents indicating the ASHA and Registry employees responsible for selling advertisements in magazines or other ASHA productions.
- ✓ 18. Benefits for fiscal years 2006, 2007 and 2008
- Please provide invoices and other documents that support these amounts for "administration," "Comm. And Publications" and "advancement."
- ✓ 19. Executive compensation for the Registry totaled \$81,687 \$74,737 in 2007 and 2006, respectively. Please provide all invoices supporting those expenditures, including any such invoices for contract labor.
20. Please provide documents indicating all written requests by Alan Balch to participate in "outside activities" as stated in his employment agreement. Please provide all written responses to those requests.

Jefferson K. Streepey, Esq.
June 26, 2009
Page 7

√ 21. Please provide a copy of all documents and communications that indicate that the ASHA's audits for fiscal years 2006, 2007 and 2008 comply with *Statement on Auditing Standards (SAS) No. 114: "The Auditors Communication With Those Charged with Governance."*

√ 22. Please provide documents indicating that the organization has adopted FIN 48 accounting for income taxes to ensure that it does not have any tax positions that could jeopardize its tax exempt status.

Please let me know at your earliest convenience, but no later than July 13, 2009, if the ASHA will produce all of the documents requested. Of course, please let me know if you have questions.

Sincerely

Stoll Keenon Ogden PLLC


Stephen A. Houston

Jeff Streepey

From: Houston, Stephen [Stephen.Houston@skofirm.com]
Sent: Thursday, September 10, 2009 5:48 PM
To: Jeff Streepey
Subject: RE: ASHA

Jeff:

I will attend the ASHA document production along with Maria Combs and Dub Newell. Of course, we reiterate our position that the ASHA, a Kentucky non-profit entity, should allow us to inspect all of the documents we have requested. KRS 273.233 provides clear authority for ASHA members and their representatives to inspect "all records" maintained by the ASHA, and the statute makes no exception. We will seek relief from a court if the ASHA fails, once again, to allow its members to inspect "all records."

Regards,
Stephen

Stephen A. Houston
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
(502) 333-6000
www.skofirm.com

From: Jeff Streepey [mailto:JStreepey@BSG-Law.com]
Sent: Friday, September 04, 2009 11:00 AM
To: Houston, Stephen
Cc: Alan Balch (alan@asha.net); Barbara Molland; Judy Werner (redwingfarm.werner@gmail.com)
Subject: ASHA

Stephen,

See attached.

Jefferson K. Streepey
400 W. Market St. Ste 2300
Louisville, Ky. 40202
502-589-5980
Fax 502-561-9400

Because the extensive disclosures required by IRS Circular 230 in tax communications to clients are not contained in this document, you may not rely on any tax advice contained in this e-mail (or attachments) to avoid tax penalties.

JL
VI
AU

PROVIDED
2009
SS & G LLP

COMMONWEALTH OF KENTUCKY
FAYETTE CIRCUIT COURT
THIRD DIVISION
CASE NO. 09-CI-5292

AMERICAN SADDLEBRED
HORSE ASSOCIATION, INC.

PLAINTIFF

v. DEFENDANTS' FIRST REQUEST FOR PRODUCTION OF DOCUMENTS
BY THE ASHA

EDWARD R. BENNETT, *et al.*

DEFENDANTS

Defendants, Edward R. Bennett, Carl T. Fischer, Jr., Kris Knight, Tom Ferree, Simon Fredricks and Lynn W. Via (collectively, "Defendants"), pursuant to Rule 34 of the Kentucky Rules of Civil Procedure ("CR"), propound this first request for production of documents by Plaintiff, American Saddlebred Horse Association, Inc. ("ASHA"). The ASHA shall within 30 days, pursuant to CR 34.02(2), serve its written responses to the specific requests for production of documents and produce the documents requested for inspection and copying at the offices of Stoll Keenon Ogden PLLC, 2000 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky, or at such other time and place as may be agreed upon by the attorneys for the parties.

DEFINITIONS

The following definitions apply to these requests for production of documents.

A. The term "you" or "your" shall mean the ASHA, its agents, representatives, employees, attorneys, experts, investigators, insurers, or anyone acting on behalf of the foregoing.

B. "Complaint" shall mean the Complaint filed in the action.

C. The term "person" shall mean individual persons, firms, associations, partnerships, corporations, or other entities.



D. The term "document" shall mean anything discoverable under CR 34. Further, the term "document" shall be used in the broad and liberal sense and shall mean written, typed, printed, recorded or graphic matter, however produced or reproduced, of any kind and description and whether an original, master, duplicate or copy, including papers, notes of conversations, contracts, agreements, purchase orders, invoices, payment vouchers, credit memos, credit policies, payment receipts, bills of lading, delivery receipts, service tickets, field service reports, drawings, telegrams, tape recordings, communications (including inter-office and intra-office memoranda), analytical reports, studies, UCC search reports, security agreements, working papers, corporate records, minutes of meetings, notebooks, wire transfers, bank deposit slips, bank checks, cancelled checks, diaries, diary entries, appointment books, desk calendars, photographs, transcriptions or sound recordings of any type of personal or telephone conversations, negotiations, meetings, conferences, or things similar to any of the foregoing, and data, information or statistics contained within any data storage module, tape, disc or other memory device or other information retrievable from storage systems including computer generated reports and print-outs and electronic communications, including e-mail and facsimile transmissions. The term "document" shall also mean any English translation of a document in another language. If any document has been modified by the addition of notations or otherwise, or has been prepared in multiple copies that are not identical, each modified copy or non-identical copy is a separate "document."

E. The term "copy" shall mean a photocopy, or any other form of true and accurate duplication of a document.

F. The term "including" shall mean including without limitation.

G. The term "any" shall mean "each and every" as well as "any one."

H. As used in these discovery requests, the singular includes the plural and the plural includes the singular, the conjunctive includes the disjunctive and the disjunctive includes the conjunctive; the masculine includes the feminine and the feminine includes the masculine; and the present tense includes the past tense and the past tense includes the present tense so as to bring within the scope of these discovery requests all responses that might otherwise be construed to be outside their scope.

I. As used herein, the connectives “and” and “or” as used in the term “and/or” shall be construed either disjunctively or conjunctively as necessary to bring within the scope of these discovery requests all responses that might otherwise be construed to be outside their scope.

INSTRUCTIONS

The following instructions apply to these requests for production of documents:

A. These requests for production of documents shall be responded to in accordance with CR 34.

B. The ASHA is required to respond to these requests for production of documents drawing upon all materials in its possession, ownership, custody or control, including materials that it has a right to secure from any other source.

C. If, after a reasonable and thorough investigation, using due diligence, the ASHA is unable to respond to any of the requests for production of documents, or any part thereof, on the ground of lack of information available to it, the ASHA shall specify in full and complete detail why the information is not available to it and what has been done to locate such information. In addition, the ASHA shall specify what knowledge or belief it has concerning the requests for production of documents to which it has not responded, or any portion thereof to which it has not responded, and set forth the facts upon which such knowledge or belief is based.

D. In the event any information or document referred to in these requests for production of documents is not in the ASHA's possession, custody or control, it shall specify what disposition was made of it and identify the person who has possession, custody or control of the information or document.

E. In the event that any document referred to in these requests for production of documents has been destroyed, the ASHA shall specify the date of such destruction, the manner of such destruction, the reason for such destruction, the person authorizing such destruction, and the custodian of the document at the time of its destruction.

F. If the ASHA withholds information otherwise discoverable by claiming that it is confidential, privileged or subject to protection as trial preparation material, the ASHA shall make the claim expressly and shall describe the information not produced in a manner that will enable Defendants to assess, and the Court to adjudicate, the applicability of the privilege or protection.

G. In the event that the ASHA files a proper and timely objection to any of these requests for production of documents, she shall state in detail the grounds for the objection, and respond to all portions of the discovery request that do not fall within the scope of the objection.

H. These requests for production of documents shall be read so as to be inclusive rather than exclusive. The present tense includes the past and future tenses. The terms "and" and "or" shall be construed conjunctively or disjunctively, as necessary to make these requests for production of documents inclusive rather than exclusive. The term "any" means all documents, persons, entities or things inclusively, and is not intended to give the option of responding as to some but not as to others. The singular shall include the plural and the plural shall include the

singular (except as the context may otherwise dictate). Words in the masculine, feminine or neutral form shall include each of the other genders.

I. These requests for production of documents shall constitute a continuing request for information so as to require responses to be supplemented in accordance with CR 26.05. Any supplemental responses should be furnished as soon as possible after the new information becomes available between the time of the ASHA's original response and the time of the trial.

REQUESTS FOR PRODUCTION

Defendants request that the ASHA produce the following:

1. All documents identified in the ASHA's response to the Defendants' First Set of Interrogatories to the ASHA.

RESPONSE:

2. The employment agreement and deferred compensation package entered on October 31, 2007 between the ASHA and Alan F. Balch, as identified in the Financial Statements prepared by Bennett & Company CPAs for the year ended December 31, 2007 ("2007 Financial Statements").

RESPONSE:

3. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for "commissions" totaling \$29,369 in 2007 listed in the 2007 Financial Statements.

RESPONSE:

4. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for "commissions" totaling \$26,105 in 2006 listed in the Financial Statements prepared by Bennett & Company CPAs for the year ended December 31, 2006 ("2006 Financial Statements").

RESPONSE:

5. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "Comm. and Publications" portion of "salaries" in 2007 totaling \$90,157 listed in the 2007 Financial Statements.

RESPONSE:

6. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "advancement" portion of the "salaries" totaling \$77,428 in 2007 listed in the 2007 Financial Statements.

RESPONSE:

7. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "administration" portion of the "salaries" totaling \$413,691 in 2007 listed in the 2007 Financial Statements.

RESPONSE:

8 All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "Comm. and Publications" portion of "benefits" in 2007 totaling \$12,530 listed in the 2007 Financial Statements.

RESPONSE:

9. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "advancement" portion of the "benefits" totaling \$9,758 in 2007 listed in the 2007 Financial Statements.

RESPONSE:

10. All documents reflecting, regarding or relating to each individual and entity who received any portion of the expenditures for the "administration" portion of the "benefits" totaling \$66,990 in 2007 listed in the 2007 Financial Statements.

RESPONSE:

11. All documents reflecting, regarding or relating to each individual and entity who received any portion of the "administration" expenses totaling \$347,737 for the "Registry programs" in 2007 as identified in the 2007 Financial Statements.

RESPONSE:

12. All documents reflecting, regarding or relating to each individual and entity who received any portion of the "administration" expenses totaling \$368,366 for the "Registry programs" in 2006 as identified in the 2006 Financial Statements.

RESPONSE:

13. All of the invoices supporting the expenditures identified as "Meetings and Conferences" totaling \$222,166 in 2007 including, without limitation, the following:

- \$29,522 Kentucky State Fair
 - Saddlebred Daily \$2,970
 - Monday \$593
 - Tuesday \$1,317
 - Wednesday \$1,317
 - Thursday \$1,317
 - Friday \$830
 - Saturday \$1,264
 - Sunday \$1416
 - Contract Labor \$2,500
 - 06 Ring 1,250
 - KSF Results Commission \$2,043
- \$29,010 Youth Conference Expense.

- Printing cost of \$724
- Embassy Suites of \$6,525
- \$26,502 Lordosis
- \$40,838 annual meeting expense
 - Embassy Suites \$18,791
 - Convention Sponsors of \$2,070
- \$28,171 Fundraiser Auction
 - Rocking Horse \$2,000
 - Saddle \$1,200
 - Derby Tickets
 - Executive West \$8,293

RESPONSE:

14. All of the invoices supporting the expenditures identified as "Meetings and Conferences" totaling \$159,865 in 2006 including, without limitation, the following:

- \$22,000 American Saddlebred Ball
 - \$12,536
 - \$2,468
- \$35,091 Annual Meeting Expense
 - \$12,418
 - \$7,723
- \$50,211 Kentucky State Fair Expense
 - \$5,775
 - Online Payment \$5,221
 - Online Payment \$2,500
 - L. Weatherman \$2,904

RESPONSE:

15. All of the invoices supporting the expenditures identified as printing expenditures totaling \$200,796 in 2007 including, without limitation, the following:

- \$21,691
- \$12,932
- \$15,751
- \$14,893
- \$45,297
- Susanna Thurston \$15,180
- Susanna Thurston \$6,225
- Marcia Carothers \$5,652

RESPONSE:

16. All of the invoices supporting the expenditures identified as printing expenses totaling \$180,497 in 2006 including, without limitation, the following:

- \$11,015
- \$39,531
- \$19,880
- \$12,442
- \$14,009
- \$13,858
- \$10,458

RESPONSE:

17. All invoices supporting the expenditures identified as contract fees totaling \$9,600 in 2007 and a copy of any agreements with Mae Condon and Brenda Newell.

RESPONSE:

18. All invoices supporting the expenditures identified as contract fees totaling \$78,442 in 2006.

RESPONSE:

19. All of the invoices supporting the expenditures identified as Advertising/Promotion totaling \$13,523 in 2007 including, without limitation, the following:

- Primea \$1,732
- Advertising \$1,000

RESPONSE:

20. All of the invoices supporting the expenditures identified as Advertising/Promotion totaling \$63,287 in 2006 including, without limitation, the following:

- Pramedi \$1,648
- Derby Tickets \$2,300
- \$2,173 World Equestrian Games

RESPONSE:

21. All bank statements for the months of January 2007 through December 2007.

RESPONSE:

22. All bank statements for the months of January 2006 through December 2006.

RESPONSE:

23. All documents reflecting, regarding or relating to the "APS Settlement" charge of \$1,119 in 2006 bank statements.

RESPONSE:

24. All documents reflecting, regarding or relating to the lease agreements for which the interest expenses totaling \$26,179 and \$32,949 for 2007 and 2006, respectively, were paid.

RESPONSE:

25. All documents reflecting, regarding or relating to the expenditures for market research totaling \$12,796 in 2007.

RESPONSE:

26. All documents reflecting, regarding or relating to agreements and contracts to perform work relating to market research for the ASHA.

RESPONSE:

27. All documents reflecting, regarding or relating to the expenditures for market research totaling \$38,721 in 2006, including the name and address of all payees.

RESPONSE:

28. All documents reflecting, regarding or relating to expenditures for web page and email services performed on behalf of the ASHA since January 1, 2006.

RESPONSE:

29. All invoices and other documents that support salary amounts and amounts for "administration," "Comm. And Publications" and "advancement" for fiscal years 2006, 2007 and 2008.

RESPONSE:

30. All documents reflecting, regarding or relating to all commissions paid for fiscal years 2006, 2007 and 2008.

RESPONSE:

31. All documents reflecting, regarding or relating to all bonuses paid for fiscal years 2006, 2007 and 2008.

RESPONSE:

32. All documents regarding, reflecting or relating to job descriptions, employment agreements and other documents indicating the ASHA and Registry employees who are responsible for selling advertisements in magazines or other ASHA productions for fiscal years 2006, 2007 and 2008.

RESPONSE:

33. All invoices and other documents that support the benefits amounts and for "administration," "Comm. And Publications" and "advancement" for fiscal years 2006, 2007 and 2008.

RESPONSE:

34. All invoices supporting the expenditures for executive compensation for the Registry totaling \$81,687 and \$74,737 in 2007 and 2006, respectively, including invoices for contract labor.

RESPONSE:

35. All documents reflecting, regarding or relating to all written requests by Alan Balch to participate in "outside activities" as stated in his employment agreement and all written responses to those requests.

RESPONSE:

36. All documents reflecting, regarding or relating to the ASHA's and Registry's internal control policies and procedures with respect to financial receipts, expenditures and accounts.

RESPONSE:

37. All documents reflecting, regarding or relating to the date upon which the policies described in Request No. 36 were approved and implemented.

RESPONSE:

38. All documents reflecting, regarding or relating to Mr. Balch's time spent at work, on vacation, and absent due to illness from January 1, 2007 through today.

RESPONSE:

39. All documents reflecting, regarding or relating to any employment agreements and compensation arrangements for all ASHA and Registry employees from January 1, 2007 through today.

RESPONSE:

40. All documents reflecting, regarding or relating to the amount and nature of work performed by any ASHA and Registry full-time employees, including without limitation Mr. Balch, on behalf of the United States Equestrian Trust, Inc. ("USET"), the United States Equestrian Federation ("USEF") and any other entity or individual other than the ASHA and Registry.

RESPONSE:

41. All documents reflecting, regarding or relating to the ASHA and Registry's actions, if any, in response to the letter dated February 10, 2009 in which the ASHA's independent auditor identified "significant deficiencies" in the ASHA's internal control.

RESPONSE:

42. All documents reflecting, regarding and relating to correspondence between Alan Balch and former finance committee member Carl Holden between January 1, 2009 and today.

RESPONSE:

43. All documents reflecting, regarding and relating to correspondence between Alan Balch and members of the executive committee between January 1, 2008 and today.

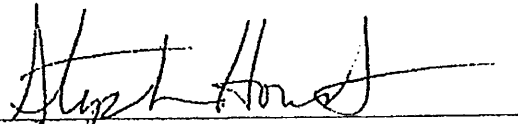
RESPONSE:

44. All documents reflecting, regarding or relating to potential violations of ASHA and Registry rules committed by ASHA and Registry employees and board members.

RESPONSE:

45. All documents reflecting, regarding or relating to the information Ms. Werner received in writing as referenced in paragraph 4 of the September 18, 2009 meeting minutes of the ASHA Executive Committee.

RESPONSE:



Culver V. Halliday
Stephen A. Houston
STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
(502) 333-6000

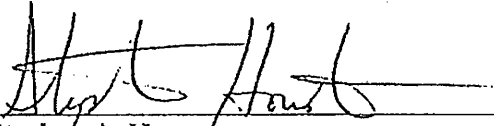
Attorneys for Defendants
Edward R. Bennett, Carl T. Fischer Jr.,
Kris Knight, Tom Ferrebee, Simon
Fredricks and Lynn W. Via

CERTIFICATE OF SERVICE

I certify that Defendants' First Request For Production Of Documents By The ASHA was served, on December 4, 2009, by hand delivery of copies to the following:

Edward H. Stopher
Jefferson K. Streepey
Boehl, Stopher & Graves
400 West Market Street, Suite 2300
Louisville, Kentucky 40202-3354

James B. Cooper
Boehl, Stopher & Graves
444 West Second Street
Lexington, Kentucky 40507-1009



Stephen A. Houston

106586.133594/604942.2

DEAN DORTON || ALLEN || FORD

**AMERICAN SADDLEBRED HORSE
ASSOCIATION, INC.**

Financial Statements

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

EXHIBIT

C

ASHA024049

CONTENTS

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Independent Auditors' Report.....	1
Financial Statements:	
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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, PLLC

AMERICAN SADDLEBRED HORSE ASSOCIATION, INC. .

Statements of Financial Position

December 31, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
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>
	628,756	-	-	628,756	679,098
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	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>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>
Cash flows from operating activities:		
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
Cash flows from investing activities:		
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)
Cash flows from financing activities:		
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>
Supplemental disclosures of cash flow information:		
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>