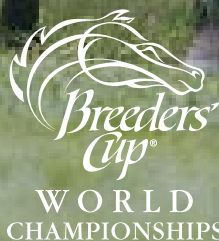
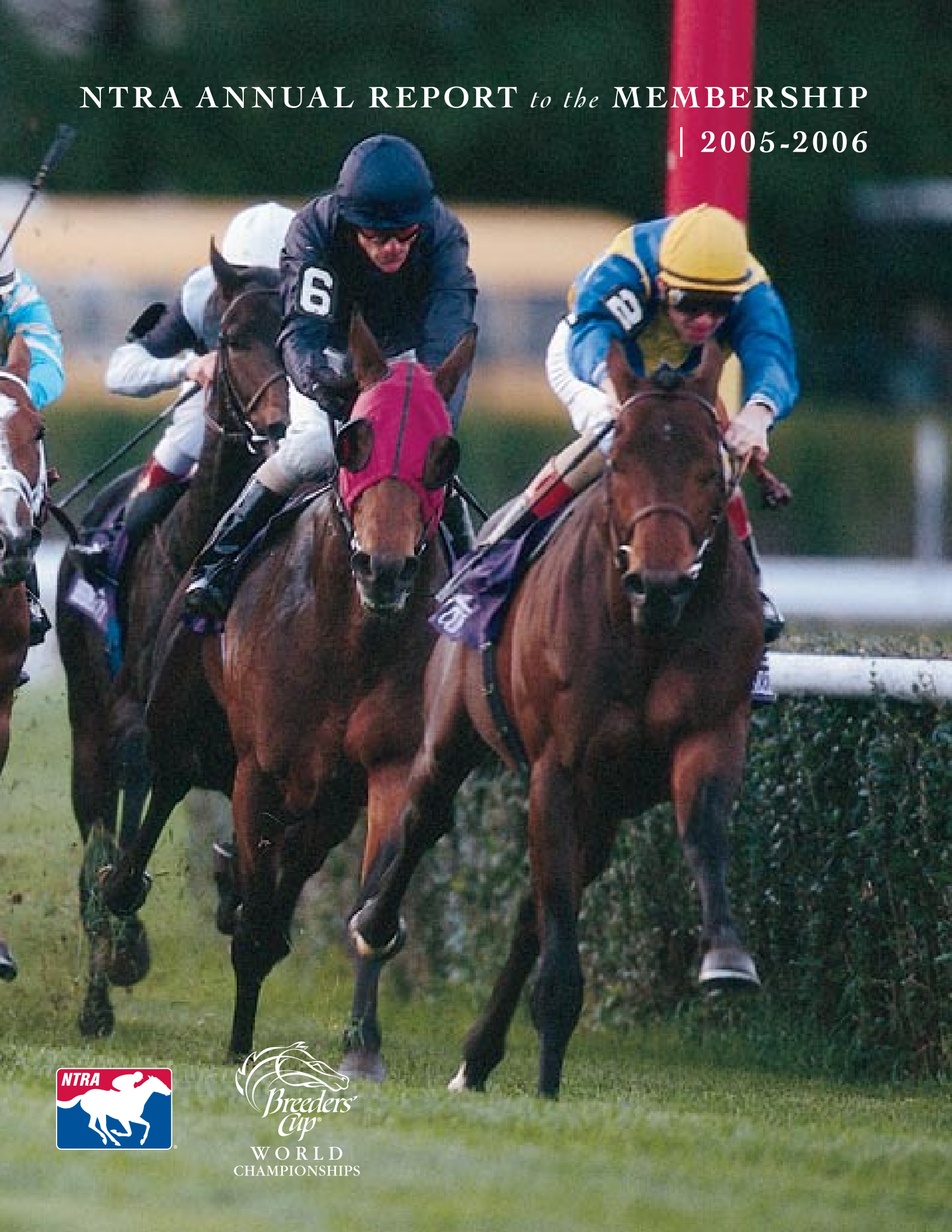


NTRA ANNUAL REPORT *to the* MEMBERSHIP
| 2005-2006



2005-2006 ANNUAL REPORT *to the* MEMBERSHIP



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MESSAGE *from the* CHIEF EXECUTIVE OFFICER

Dear NTRA Supporters and Stakeholders:

This annual report includes detailed financial statements for the years 2004 and 2005 and reviews progress on the NTRA's core priorities for 2005 and 2006.

Over the last few years, we have discovered, in part through trial and error, those areas in which the NTRA can effect the most benefit for the Thoroughbred racing industry: legislation, television, sponsorship, communications and leadership on industry issues of national importance. This report focuses on these key areas.

The last year also was a time of change. The NTRA and Breeders' Cup recently entered a new membership agreement through the end of 2008 that maintains our joint operating structure and allows us to continue to work together on television, marketing, sponsorship and public relations while sharing offices space and administrative functions. The new agreement optimizes the working potential of the combined operation while recognizing and protecting the unique assets that each organization contributes.

Through a process of streamlining that began in 2006, we anticipate greater operational efficiencies in the months ahead as we continue to identify those areas where we can be most effective and those that will benefit more from outside expertise and resources.



We also thank former NTRA Commissioner and Breeders' Cup President D.G. Van Clief, Jr., who retires in 2006 after 24 years of service to the industry, including nearly a decade with the NTRA and a vital role in the organization's founding.

Among the highlights of the last year:

Strengthening the industry's presence on Capitol Hill, safeguarding its interests in connection with attempts to pass federal Internet gaming legislation and with the introduction of legislation that would provide substantial tax relief for horse owners and breeders;

Solidifying our relationship with ESPN for the next several years, including the upcoming telecast of the \$20 million Breeders' Cup World Championships, the "Road to the Breeders' Cup World Championships," and the "Emirates Airline Countdown to the Breeders' Cup." With its extensive reach and powerful multi-platform promotion for Thoroughbred racing, ESPN will expose more fans than ever to our season-ending Championships event;

Promoting our sport nationwide with a multiple award-winning radio campaign and our new "Who Do You Like Today?" commercials celebrating the horse player with personalities such as Dennis Hopper, Kid Rock and Jerome Bettis;

Committing to fund an independent Office of Racing Integrity in conjunction with our members and appropriate regulatory bodies to ensure common standards, best practices and investigatory oversight on a national basis;

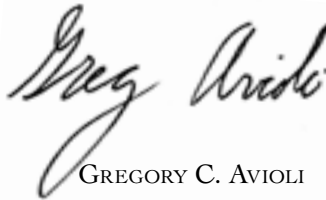
Extending key marketing partnerships that continue to raise the profile of our sport and provide financial support for television and joint marketing efforts; and

Working together with key constituents on issues of common interest, such as increased injury insurance for jockeys and exercise riders, equine health and safety and others.

We are proud of these accomplishments, but mindful of how much more we can accomplish working together for the common good of the industry. We look to our member organizations, individual stakeholders, marketing partners and industry allies – collectively, an abundant source of talent, initiative and expertise – to help us in our endeavors.

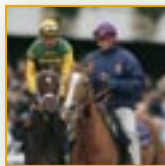
As always, we appreciate your support and welcome your comments.

Sincerely,



GREGORY C. AVIOLI
Chief Executive Officer

UPDATE *to the* MEMBERSHIP



NEW MEMBERSHIP AGREEMENT *with* BREEDERS' CUP LIMITED

On July 26, 2006, the NTRA and Breeders' Cup Limited (BCL) announced that they had reached a new two-year agreement regarding their combined operations. NTRA and BCL will continue to work jointly on television, marketing, public relations and sponsorship initiatives and to share offices and administrative functions. The companies will have separate budgeting and accounting functions. NTRA will seek two-year membership agreements from racetrack, horsemen, off-track betting and other industry organizations for 2007-2008.

As part of the joint operational restructuring, NTRA effected a 40 percent reduction in total staff levels and employee costs for combined NTRA/BCL operations as well as concomitant outsourcing of multiple functions that were previously conducted in-house. These changes are projected to generate as much as \$6 million per year in operational savings when fully implemented in 2007.

ESPN RELATIONSHIP

NTRA has confirmed a variety of new promotional, production and programming initiatives for the inaugural telecast of the Breeders' Cup World Championships on ESPN in 2006. A high-intensity promotional period will run throughout multiple ESPN platforms (television, Internet, wireless, international, etc.) beginning on September 30 when the "Emirates Airline Countdown to the Breeders' Cup" will air on three consecutive weekends.

Each of these three telecasts will be promoted as horse racing's version of baseball "play-offs." In the aggregate, the "Countdown" includes 12 final preps highlighting all Breeders' Cup divisions and leading contenders.

ESPN has added daily telecasts beginning Wednesday, November 1 and covering all aspects of Championships week at Churchill Downs. Programming will be themed "Breeders' Cup Week on ESPN." Championships Day itself includes:

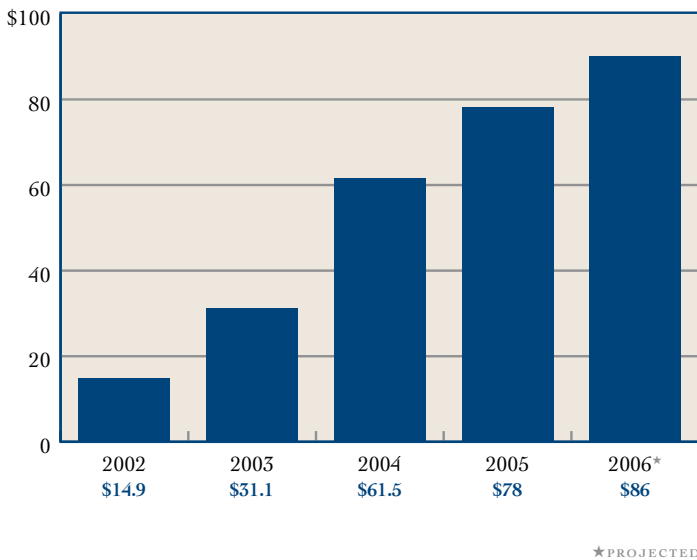
- ESPN Deportes – Complete live Spanish-language coverage including race calls, talent on-site, and graphics.
- Breeders' Cup Webcam – Uninterrupted coverage with live streaming video on ESPN.com and NTRA.com of paddock, odds and minutes-to-post updates.
- Virtual Enhancements – Plans for European-style virtual distance markers and finish line to enhance coverage.
- Seven hours of coverage – Including "SportsCenter at the Breeders' Cup", which will comprise the final hour and feature Championships Day results and information with the other leading sports stories of the day such as college football highlights.
- International coverage – To more than 100 countries.

At the same time, NTRA has simplified and restructured agreements with its television subsidiary NTRA Productions. The streamlined relationship allows the NTRA and Breeders' Cup Limited to pursue their respective television and sponsorship strategies beyond 2006 without undue contractual restrictions.

SPONSORSHIP *and* GROUP PURCHASING

NTRA has negotiated sponsorship renewals with Dodge (through 2006) and NetJets and Bessemer Trust (both through 2007). The association is in discussions with Grey Goose and Emirates Airline to expand the scope of their existing sponsorships (both of which currently extend through 2007) and expects to announce new marketing partners by early fall. With these additions, the combined Breeders' Cup-NTRA sponsorship program is projected to generate more than \$13.2 million in gross revenue in 2006. NTRA Purchasing's sponsor product sales to NTRA members have doubled for three consecutive years and are projected to exceed \$85 million in 2006.

GROUP PURCHASING SALES (IN MILLIONS)

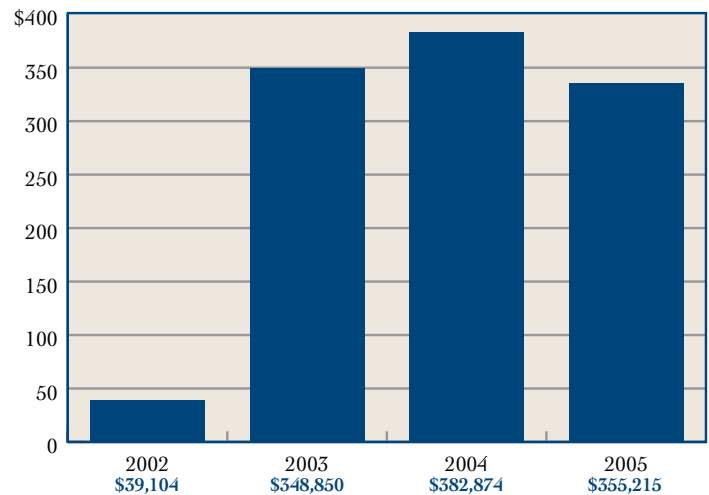


LEGISLATION/POLITICAL ACTION COMMITTEE

The NTRA continues its strong work in the federal legislative arena, with this year's efforts focused primarily on ensuring racing's position in the Internet gambling legislation now moving through Congress. Account wagering on the Internet remains the industry's fastest-growing revenue source and is expected to generate more than \$2 billion (or 15 percent) of total U.S. pari-mutuel handle this year. The NTRA also is working to secure passage of the Equine Equity Act, which will provide nearly \$450 million in tax relief to horse owners and breeders by shortening the depreciation schedule for horses from seven to three years and reducing the capital gains holding period for horses from two years to one year. NTRA's lobbying is complemented by its Political Action Committee, Horse PAC, now the largest gaming PAC in the United States with receipts of nearly \$1.5 million since its inception in 2002.

HORSE PAC ANNUAL RECEIPTS 2002 – 2005

TOTAL CUMMULATIVE HORSE PAC RECEIPTS SURPASSED \$1 MILLION IN 2005.



MEDIA RELATIONS

The NTRA Communications staff provides news services to media nationwide, including weekly teleconferences, e-mail updates, interviews and research. Through a partnership with Equibase Company, LLC, the NTRA's official supplier of racing information and statistics, NTRA Communications makes horse racing and breeding statistical data available to members of the media.

PRODUCT IMPROVEMENTS

With Breeders' Cup, the NTRA remains focused on increasing the domestic and international brand and sports property value of the \$20 million Breeders' Cup World Championships. To that end the NTRA is developing television and on-track promotions to position leading divisional prep races as "sanctioned qualifiers" for the Breeders' Cup Championships beginning in 2007. The association expects to televise and brand five to seven major event days featuring world class races from a single venue that have a direct tie to the Breeders' Cup World Championships and to utilize ESPN's extensive promotional platforms for added marketing and media exposure.

CRISIS MANAGEMENT

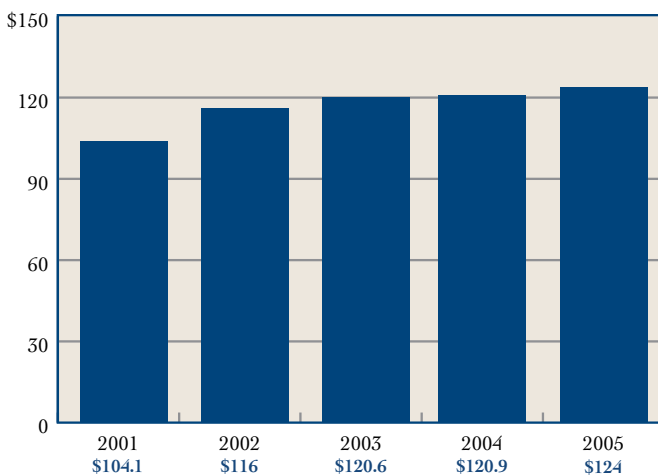
Over the past 18 months, the NTRA has worked with insurer AIG to obtain increased catastrophic injury insurance coverage for jockeys and coordinated the industry's response to Congressional hearings into jockey health and safety. Most recently, the NTRA has joined an industry initiative organized by the Grayson-Jockey Club Research Foundation, the American Association of Equine Practitioners and others to study the rate and type of injuries sustained by racing's human and equine athletes with the goal of reducing their incidence and severity. Through its 501(c)(3) subsidiary, NTRA Charities, the association is helping coordinate an industry-wide fundraising program to aid the nation's permanently disabled riders. NTRA Charities has raised nearly \$6 million since 2001 for a variety of community and industry outreach programs.

NATIONAL ADVERTISING

NTRA's new advertising campaign, with the tagline "Who Do You Like Today?," celebrates the community of horseplayers and the experience of handicapping. The campaign includes several prominent celebrities, leading trainers and jockeys and everyday fans. Celebrities include actors Matthew Fox, Jerry O'Connell, Michael Imperioli, Jon Lovitz and Dennis Hopper; TV personalities Alex Trebek, Robin Leach and Star Jones; popular musicians Burt Bacharach, Josh Groban and Kid Rock; sports personalities Rick Pitino, Tubby Smith, Wayne Gretzky and Jerome Bettis; and others such as entrepreneur Sir Richard Branson and super model Petra Nemcova. ESPN has begun using the tagline as a lead in to its in-show live handicapping segments and the campaign has been featured in *Sports Business Journal* and major metro dailies.

BREEDERS' CUP WORLD CHAMPIONSHIPS DAY TOTAL WAGERS

(IN MILLIONS)



Upwards of a dozen NTRA member associations, including Churchill Downs Inc., the New Jersey Sports & Exposition Authority, Canterbury Park, Louisiana Downs, Emerald Downs, Suffolk Downs and others are using the spots, as well as the New York Racing Association, which ran them prior to the 2006 Belmont Stakes. Announcers for the YES Network, which televises the New York Yankees, picked up the “Who Do You Like Today?” theme, repeating it on-air multiple times and during an interview with Yankees manager Joe Torre.

The NTRA’s radio campaign, available for use by all member organizations, has won nearly two dozen national and international advertising awards since its debut in 2003. Written and produced by the New York advertising agency DeVito/Verdi in conjunction with the NTRA, the campaign uses a styled race call to describe classic life moments that ultimately fail to live up to expectations, including a disastrous dinner date and a mother-in-law’s visit.

Shortly after its launch, the campaign won the Addy Award “Best of Show,” a rarity for radio as it competed against 60,000 broadcast entries, including television advertisements. The campaign has won numerous other national and local Addy Awards and received overwhelmingly positive response from target consumers.

In 2006, the campaign won its second Mercury Award, honoring the nation’s top radio campaign, and its second Gold Lion Award at the International Advertising Festival in Cannes, France, honoring the top radio campaign in the world in its category. In May, the campaign was honored with a Gold Clio Award as one of the outstanding advertising campaigns nationally.

Some 40 member tracks have utilized the campaign since its inception. This year, approximately 15 member tracks are using the spots, which can be customized to include local-market messages.

WEB SITE REDESIGN

A newly designed NTRA.com focuses on the best live racing each week with emphasis on streaming video and other modern Web technology to improve fans’ online experience of horse racing. The site features archives of all ESPN-produced horse racing programming; complete listings of graded stakes and televised racing that can be imported directly into users’ Microsoft Outlook calendars for quick reference; a virtual “Q&A” for commonly asked questions on pari-mutuel wagering; free, downloadable Equibase past performances for all horses competing in ESPN-televised races; daily race results feeds that stream in real time on major browsers such as Yahoo! and Google; and online blogs from popular racing columnists such as Randy Moss and Jeremy Plonk. Site visits for NTRA.com mid-way through 2006 – despite the lack of a Triple Crown contender this year – are up 26 percent. Page views have increased 39 percent through the first half of the year.

OFFICE *of* RACING INTEGRITY

NTRA has committed to funding an independent Office of Racing Integrity (ORI) that is expected to be staffed and operational by the end of 2006. Structured as a partnership between NTRA, its members and industry regulators, the ORI's objective are to:

- Develop uniform standards for wagering security and access into U.S. pari-mutuel wagering pools;
- Coordinate investigatory functions and reporting of illegal activity;
- Certify entities that participate in the domestic pari-mutuel wagering network;
- Develop a program of nationwide licensure and a public database of information on licensees;
- Continue the work of the Racing Medication and Testing Consortium (RMTC) in overseeing the use of controlled substances in the sport; and
- Encourage the adoption of technologies that will enable the use of wagering transaction protocol-based systems.

CONCLUSION

As we look toward the fourth quarter of 2006, the NTRA's priorities include Internet gaming legislation, re-branding major event days linked to the Breeders' Cup, maximizing the marketing and media assets of ESPN to further promote Thoroughbred racing nationally, renewing NTRA racetrack and horsemen's memberships for 2007-2008 and increasing industry support for the association's Political Action Committee, Horse PAC.

With our current initiatives fully implemented, we look forward to a solid year in 2007 – focusing on our core strengths: sponsorship sales, the television product, brand-building for horse racing's signature events, marketing, integrity programs and federal lobbying to protect and grow the horse racing industry.

National Thoroughbred Racing Association, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS *and*
OTHER FINANCIAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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National Thoroughbred Racing Association, Inc. and Subsidiaries
REPORT *of* INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS
NATIONAL THOROUGHBRED RACING ASSOCIATION, INC.

We have audited the accompanying consolidated statements of financial position of National Thoroughbred Racing Association, Inc. and Subsidiaries (the Association) as of December 31, 2005 and 2004, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 were not engaged to perform an audit of the Association's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Thoroughbred Racing Association, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their activities, their changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating details appearing in the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

JULY 12, 2006

Ernst + Young LLP

CONSOLIDATED STATEMENTS of FINANCIAL POSITION

AS OF DECEMBER 31, 2005 AND 2004 [WITH CONSOLIDATING DETAILS IN 2005]

	NTRA, INC.	NTRA INVESTMENTS, LLC	INTERCOMPANY ELIMINATIONS	2005 CONSOLIDATED	2004 CONSOLIDATED
ASSETS					
Cash and cash equivalents	\$ 6,130,171	\$ 1,013,379		\$ 7,143,550	\$ 5,120,101
Funds held for others	3,056,463			3,056,463	1,836,989
Accounts receivable, net	6,576,889	1,768,097	\$ (17,435)	8,327,551	5,805,542
Receivable from Breeders' Cup Limited	1,369,484			1,369,484	959,170
Prepaid expenses	118,160	126,102		244,262	915,895
Other assets	546,209			546,209	483,979
Property and equipment, net	902,538			902,538	893,501
Investment in subsidiaries	1,000,000		(1,000,000)		
Intangible assets, net		9,684,150		9,684,150	13,059,812
Total assets	\$ 19,699,914	\$ 12,591,728	\$ (1,017,435)	\$ 31,274,207	\$ 29,074,989
LIABILITIES AND NET ASSETS					
Accounts payable and accrued liabilities	\$ 5,570,765	\$ 468,051	\$ (17,435)	\$ 6,021,381	\$ 7,043,052
Funds held for others	3,056,463			3,056,463	1,836,989
Deferred revenue	423,001	22,250		445,251	496,167
Current portion of long-term debt		6,750,000		6,750,000	162,500
Long-term debt		7,250,000		7,250,000	16,000,000
Other long-term liabilities	579,408			579,408	512,738
Total liabilities	9,629,637	14,490,301	(17,435)	24,102,503	26,051,446
Minority interest		25,000	(25,000)		
Net assets					
Preferred membership interest		1,000,000	(1,000,000)		
Undesignated net assets (deficit)	10,070,277	(2,923,573)	25,000	7,171,704	3,023,543
Total net assets (deficit)	10,070,277	(1,923,573)	(975,000)	7,171,704	3,023,543
Total liabilities and net assets	\$ 19,699,914	\$ 12,591,728	\$ (1,017,435)	\$ 31,274,207	\$ 29,074,989

See accompanying notes.

CONSOLIDATED STATEMENTS of ACTIVITIES *and* CHANGES *in* NET ASSETS

AS OF DECEMBER 31, 2005 AND 2004 [WITH CONSOLIDATING DETAILS IN 2005]

	NTRA, INC.	NTRA INVESTMENTS, LLC	INTERCOMPANY ELIMINATIONS	2005 CONSOLIDATED	2004 CONSOLIDATED
OPERATING REVENUES					
Revenues from Breeders' Cup Limited	\$37,369,740			\$ 37,369,740	\$ 36,024,470
Membership dues	17,308,278			17,308,278	17,494,628
Television, sponsorship, purchasing and promotions	15,195,222	\$ 13,806,599	\$ (6,980,800)	22,021,021	21,072,172
Contributions	822,251			822,251	
Other revenues	144,374			144,374	175,524
Total operating revenues	70,839,865	13,806,599	(6,980,800)	77,665,664	74,766,794
OPERATING EXPENSES					
Television	10,157,618	10,009,713	(6,880,800)	13,286,531	15,072,821
Sponsorship and purchasing	8,191,221			8,191,221	7,208,475
Advertising, marketing and promotions	18,042,144		(100,000)	17,942,144	17,260,432
Purses and awards	22,355,127			22,355,127	21,160,645
Legislative and regulatory programs	1,858,528			1,858,528	1,800,397
Wagering Integrity Alliance					202,618
Office of Racing Integrity	263,275			263,275	834,789
Contributions	822,251			822,251	
General and administrative	4,986,643	94,041		5,080,684	5,277,032
Depreciation and amortization	459,448	3,211,982		3,671,430	3,625,626
Total operating expenses	67,136,255	13,315,736	(6,980,800)	73,471,191	72,442,835
Excess of operating revenues over operating expenses	3,703,610	490,863		4,194,473	2,323,959
NON-OPERATING INCOME (EXPENSE)					
Breeders' Cup Limited license fee					(1,600,000)
Investment income	60,000		(60,000)		
Interest income (expense)	307,701	(604,802)		(297,101)	(610,442)
Other income	250,789			250,789	216,267
Total non-operating income (expense)	618,490	(604,802)	(60,000)	(46,312)	(1,994,175)
Excess of revenues over (under) expenses	4,322,100	(113,939)	(60,000)	4,148,161	329,784

Continued next page.

National Thoroughbred Racing Association, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS *of* ACTIVITIES *and* CHANGES *in* NET ASSETS

AS OF DECEMBER 31, 2005 AND 2004 [WITH CONSOLIDATING DETAILS IN 2005]

Continued from previous page.

	NTRA, INC.	NTRA INVESTMENTS, LLC	INTERCOMPANY ELIMINATIONS	2005 CONSOLIDATED	2004 CONSOLIDATED
OTHER CHANGES					
Dividends declared		(60,000)	60,000		
Board designated net assets released from designation					500,000
Change in undesignated net assets (deficit)	4,322,100	(173,939)		4,148,161	829,784
Undesignated net assets at beginning of year, including preferred membership interest	5,748,177	(1,749,634)	(975,000)	3,023,543	2,193,759
Undesignated net assets at end of year, including preferred membership interest	10,070,277	(1,923,573)	(975,000)	7,171,704	3,023,543
Board designated net assets at beginning of year					500,000
Board designated net assets released from designation					(500,000)
Board designated net assets at end of year					
Total net assets (deficit) at end of year	\$10,070,277	\$ (1,923,573)	\$ (975,000)	\$ 7,171,704	\$ 3,023,543

See accompanying notes.

National Thoroughbred Racing Association, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS *of* CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 4,148,161	\$ 329,784
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Loss on investment		66,667
Loss on disposal of assets	624	14,320
Depreciation and amortization	3,678,134	3,625,626
Amortization of discount on long-term debt		8,687
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(2,522,009)	(153,409)
Increase in receivable from Breeders' Cup Limited	(410,314)	(456,409)
Decrease in prepaid expenses	671,633	153,564
(Increase) decrease in other assets	(62,230)	28,022
(Decrease) increase in accounts payable and accrued liabilities	(1,021,671)	1,631,878
(Decrease) increase in deferred revenue	(50,916)	165,337
Increase (decrease) in other long-term liabilities	66,670	(884,653)
Net cash provided by operating activities	<u>4,498,082</u>	<u>4,529,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Winner Communications, Inc. assets		(3,000,000)
Purchase of property and equipment	(312,133)	(675,922)
Net cash used in investing activities	<u>(312,133)</u>	<u>(3,675,922)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt	(2,162,500)	(162,500)
Board designated allocations		500,000
Net cash (used in) provided by financing activities	<u>(2,162,500)</u>	<u>337,500</u>
Net increase in cash and cash equivalents	2,023,449	1,190,992
Cash and cash equivalents at beginning of year	5,120,101	3,929,109
Cash and cash equivalents at end of year	<u>\$ 7,143,550</u>	<u>\$ 5,120,101</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 614,105</u>	<u>\$ 703,467</u>

See accompanying notes.

NOTES *to* CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

I.] NATURE *of* BUSINESS *and* ORGANIZATION

The National Thoroughbred Racing Association, Inc. (the “NTRA” or “NTRA, Inc.”), is a not-for-profit membership organization incorporated in December 1997. The purpose of the NTRA is to strengthen the Thoroughbred racing industry by increasing public awareness, creating a centralized national structure, implementing comprehensive marketing strategies and enhancing the industry’s economic condition by achieving significant revenue increases and cost reductions for its membership. NTRA, Inc., as reported on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets, includes NTRA, Inc. and its wholly owned subsidiaries, NTRA Charities, Inc. (“NTRA Charities”) and NTRA Purchasing (previously EquiSource, LLC). NTRA Charities is a not-for-profit, tax-exempt charitable organization whose purpose is to broaden the Thoroughbred industry’s scope of community outreach through a national affiliation with Ronald McDonald House Charities and to promote and support existing charities in, and related to, the Thoroughbred industry. NTRA Purchasing, created in January 2002, is a for-profit, limited liability company whose purpose is to deliver cost savings and value-added services to NTRA members through contracts with major national suppliers.

NTRA Investments, LLC (“NTRA Investments”), as reported on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets, is a for-profit, limited liability company of which NTRA has a 75 percent ownership interest. The remaining 25 percent interest is owned collectively by The Jockey Club, Inc., Breeders’ Cup Properties, LLC (an affiliate of the NTRA), Keeneland Association and Oak Tree Charitable Foundation (collectively the “Minority Partners”). NTRA Investments includes a wholly owned subsidiary, NTRA Productions, LLC (“NTRA Productions”). NTRA Productions offers television production services and controls the world’s largest archive of horse racing video as well as numerous programming contracts.

Collectively, these consolidated entities are referred to as the “Association” within these consolidated financial statements.

MEMBERSHIP *and* MANAGEMENT SERVICES AGREEMENT *with* BREEDERS’ CUP LIMITED

In October 2000, the NTRA entered into an agreement (the “Agreement”) with Breeders’ Cup Limited (“BCL”) under which, effective January 1, 2001 and for the ten-year period ending December 31, 2010, the NTRA performs certain Membership and Management Services, defined as the performance of normal day-to-day business operations of BCL. In exchange for such services, BCL provides NTRA with a Membership and Management Services Fee. This fee is equal to all BCL operating revenues, excluding investment income, dividends and interest income, license fee income to be paid by NTRA and net income from Breeders’ Cup Properties, less general and administrative expenses and other expenses necessary to operate Breeders’ Cup Limited.

In connection with this Agreement and the required services, BCL provides a non-transferable, non-exclusive, royalty-free license for NTRA to utilize various intellectual property, including copyrights, patents, trademarks, logos, customer information and other information. BCL retains full ownership of its property and the rights associated with it. In the event that NTRA’s accumulated net assets exceed \$6,500,000 in any year through 2010, the Agreement specifies the payment of a one-time license fee from NTRA to BCL. The benchmark was met in 2004; therefore, NTRA paid \$1,600,000 in 2004 and recorded the Breeders’ Cup Limited license fee on the consolidated statements of activities and changes in net assets.

At its discretion, BCL may provide NTRA with an annual allocation in support of NTRA programs and operations for a specific year. This amount will be payable on or before December 31 of each year. For the years ended December 31, 2005 and 2004, the annual allocation is \$2,250,000 and \$2,000,000, respectively. These

NOTES to CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

amounts are included in revenues from BCL in the consolidated statements of activities and changes in net assets. BCL has not committed an allocation for the year ended December 31, 2006. The Membership and Management Services Agreement is terminable by the mutual consent of the NTRA and BCL or by either party under certain circumstances as defined in the Agreement. On December 1, 2005, BCL and NTRA amended the Agreement whereby termination by BCL may occur annually after December 31, 2005 by giving written notice to NTRA no later than September 30 of each year to be effective December 31 of the subject year. Subsequent to year end, BCL provided written notice to NTRA for termination of this Agreement effective December 31, 2006. Both organizations are in the process of negotiating a new agreement for the years 2007 and 2008.

Additionally, effective January 1, 2006, BCL and NTRA agreed to modify the Agreement whereby actual revenues for Breeders' Cup Limited in excess of budget revert back to BCL. In the event that BCL revenues fall short of budgeted revenues, NTRA would reduce its operational expenses related to the Breeders' Cup in an effort to make up the shortfall; however, BCL would transfer net assets to NTRA in the amount of any revenue shortfall that could not be recovered through expense reduction.

II.] SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES of CONSOLIDATION

The consolidated financial statements include the accounts of the NTRA and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

OPERATING REVENUES and EXPENSES

Transactions that are considered by management to be ongoing and central to the strategic purpose of the Association are reported as operating revenues and operating expenses. Other peripheral transactions are reported as non-operating income (expense) on the consolidated statements of activities and changes in net assets.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

RISKS and UNCERTAINTIES

A significant portion of the Association's revenue is dependent on the overall economy of the Thoroughbred industry. The consolidated financial statements and accompanying notes have been prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported. Actual results could vary from these estimates.

REVENUE RECOGNITION

The Association derives a significant portion of its revenue from the Membership and Management Services Fee provided by BCL. Other primary sources of revenue in both 2005 and 2004 are membership dues along with fees associated with television, sponsorship, purchasing and promotions.

Racetrack members and horsemen's association dues are recognized in the year to which the membership relates. Dues from public auction sales companies, and horse sellers and buyers participating in designated public auctions, are recognized in the year during which the sale is conducted. Other membership dues are recognized as revenue when earned according to contract terms.

Television, sponsorship, purchasing and promotion revenues are earned based upon the satisfaction of contractual terms. All cash received in 2005 and 2004 related to events occurring in 2006 and 2005, respectively, is appropriately recorded in deferred revenue on the consolidated statements of financial position.

All unrestricted, unconditional charitable contributions are recorded as revenue when received. All contributions are considered available for unrestricted use

NOTES *to* CONSOLIDATED STATEMENTS

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unless specifically restricted by the donor. Restricted contributions received and expended for their restricted purpose within the same fiscal year are reported as unrestricted contributions.

BOARD DESIGNATED NET ASSETS

During 2003, NTRA's Board of Directors designated \$500,000 of net assets for funding in 2004 of an Office of Racing Integrity to oversee a systematic review of U.S. pari-mutuel wagering. The designated net assets were released from designation and used in 2004 as intended.

CASH *and* CASH EQUIVALENTS

The Association considers all investments purchased with an original maturity date of three months or less to be cash equivalents.

FUNDS HELD *for* OTHERS

Funds held for others represent cash held on behalf of other organizations that may be paid to those organizations in the near term. The amounts of \$3,056,463 and \$1,836,989 as of December 31, 2005 and 2004, respectively, are recorded as both current assets and current liabilities in the consolidated statements of financial position.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of an allowance for doubtful accounts of approximately \$545,000 and \$453,000 as of December 31, 2005 and 2004, respectively. Changes in the allowance are reflected against membership dues on the consolidated statements of activities and changes in net assets. For 2005, 19 percent of gross accounts receivable is outstanding from a single member. This receivable was collected in full in 2006. No other concentrations of credit risk existed at December 31, 2005 or 2004.

ADVERTISING *and* PREPAID EXPENSES

The Association expenses print advertising costs as incurred and media advertising costs the first time the advertising takes place. As of December 31, 2004, the Association had included approximately \$529,000 in prepaid expenses on the consolidated statements of financial position relating to amounts paid for production costs in advance of media advertising being aired. There were no such prepaid expenses in 2005.

INTANGIBLE ASSETS

The Association accounts for finite-lived intangible assets at the lower of the amortized cost or estimated realizable value. Amortization is provided using the straight-line method over the useful life of the assets. As part of an ongoing review of the valuation and amortization of the intangible assets of the Association, management assesses the carrying value of its intangible assets if facts and circumstances suggest that there may be impairment. If this review indicates that the intangible assets may not be recoverable, the Association would perform a non-discounted cash flow analysis of the operating results pertaining to such intangible assets. If the estimated undiscounted cash flows were less than the asset carrying value, the value of the intangible assets would be reduced to their estimated realizable value, which would be estimated by discounting the previously estimated cash flows.

PROPERTY *and* EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which range from two to seven years. Leasehold improvements are stated at cost and amortized using the straight-line method over the lease term. Depreciation expense is approximately \$302,000 and \$241,000 in 2005 and 2004, respectively.

NOTES to CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

COOPERATIVE ADVERTISING PROGRAM

Racetracks and off-track betting organizations are eligible to participate in the Association's cooperative advertising program. Under this program, each member is entitled to be reimbursed a portion of membership dues paid to the NTRA for costs incurred by the member to run NTRA-produced print, radio, television and outdoor advertising in its local market. Included in accounts payable and accrued liabilities at December 31, 2005 and 2004 are amounts totaling approximately \$951,000 and \$3,518,000, respectively, relating to this program. In 2006, this program has been eliminated.

III.] PROPERTY and EQUIPMENT

Property and equipment consist of the following as of December 31:

	2005	2004
Computer equipment	\$ 1,435,260	\$ 1,153,404
Furniture and fixtures	263,551	334,500
Leasehold improvements	235,910	235,910
Other equipment	170,947	161,181
	<u>2,105,668</u>	<u>1,884,995</u>
Less: accumulated depreciation and amortization	(1,203,130)	(991,494)
	<u>\$ 902,538</u>	<u>\$ 893,501</u>

IV.] INTANGIBLE ASSETS

Finite-lived intangible assets consist primarily of the purchased assets of Winner Communications, Inc., now called, and henceforth referred to as Winnercomm, Inc. ("Winnercomm"), including broadcast rights, a racing video library and intellectual property rights.

The total contracted purchase price for the assets of Winnercomm was \$27,500,000, subject to adjustments as defined in the Purchase Agreement. Payments were made each year from the date of acquisition in 1999 to 2004, in accordance with the Purchase Agreement. Final payment of \$3,000,000 was made in 2004.

These intangible assets are amortized using the straight-line method over the remaining estimated useful life, which currently expires on December 31, 2008 at the conclusion of the Services Agreement between NTRA Productions and Winnercomm (the "Services Agreement"). Under this agreement, Winnercomm provides production and programming services for NTRA Productions' horse racing programming and is responsible for generating advertising and sponsorship revenue in connection with the programming.

Under the Services Agreement, NTRA Productions paid management fees of approximately \$1,960,000 and \$3,329,000 for the years ended December 31, 2005 and 2004, respectively. The Services Agreement requires management fees of \$3,923,000 in 2006, \$4,040,000 in 2007 and \$4,162,000 in 2008.

Effective January 1, 2002, NTRA obtained 100 percent of the equity interest in EquiSource, LLC, currently referred to as NTRA Purchasing. Final payment in the amount of \$162,500 was made in 2005 as full settlement of the purchase price. Total purchase consideration was allocated to non-compete agreements, included in intangible assets, net, on the consolidated statements of financial position. The asset is amortized using the straight-line method over the four-year term of the non-compete agreements, which concluded on December 31, 2005.

The Association's finite-lived intangible assets consist of the following as of December 31:

	2005	2004
Broadcast rights and film archives	\$ 26,230,316	\$ 26,230,316
Non-compete agreements		634,607
	<u>26,230,316</u>	<u>26,864,923</u>
Less: accumulated amortization	(16,546,166)	(13,805,111)
	<u>\$ 9,684,150</u>	<u>\$ 13,059,812</u>

Amortization expense is approximately \$3,369,000 and \$3,226,000 for the years ended December 31, 2005 and 2004, respectively.

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FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

V.] LONG-TERM DEBT

NTRA has a revolving line of credit with a bank for an amount up to \$2,000,000 with interest of 0.25 percent below the prime rate payable monthly and a maturity date of June 30, 2006. As of December 31, 2005 and 2004, the NTRA had no outstanding borrowings under the line of credit, with the exception of a letter of credit for approximately \$82,000 used to secure the lease of office space in New York. Interest expense on the line of credit was not significant in 2005 and 2004.

The NTRA holds letters of credit from financial institutions to secure its leases of office space in Lexington, Kentucky and New York, New York. The letter of credit used to secure office space in New York, in an amount of \$82,000, is deducted from the available balance on the line of credit as discussed above. The letter of credit used to secure office space in Lexington is for an amount of approximately \$604,000.

To fund the purchase of the assets of Winnercomm and the establishment of NTRA Productions, NTRA Investments entered into a term loan agreement (the "Loan") on July 7, 1999 with the Minority Partners (see "Nature of Business and Organization"). The loan has a balance of \$14,000,000 and \$16,000,000 as of December 31, 2005 and 2004, respectively. This includes \$4,375,000 and \$5,000,000 as of December 31, 2005 and 2004, respectively, loaned by an NTRA affiliate (see "Related Parties"). Effective January 1, 2004 the interest rate was fixed at four percent until maturity on September 30, 2006. On June 30, 2006 the terms of the loan were revised such that no interest will be charged through maturity; the term is extended to February 29, 2012; and payments are expected to be approximately \$6,750,000 in 2006, \$2,000,000 in 2007, \$1,500,000 in 2008 and \$1,250,000 from 2009 through 2011.

Interest expense on the Loan (including amounts due to an NTRA affiliate) is approximately \$613,000 and \$685,000 in 2005 and 2004, respectively. The assets of NTRA Investments, including NTRA Productions, secure the Loan.

VI.] INCOME TAXES

The NTRA is exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. However, certain activities of NTRA are subject to tax as unrelated business income. Additionally, for-profit subsidiaries of NTRA are subject to tax on taxable income, if any. The tax effect of these activities does not materially impact the consolidated financial statements.

VII.] COMMITMENTS and CONTINGENCIES

Rent expense, which includes rent for office space, storage and various equipment in Lexington, Kentucky and New York, New York, amounted to approximately \$835,000 and \$823,000 for the years ended December 31, 2005 and 2004, respectively.

Future minimum lease payments under existing lease agreements as of December 31, 2005 are as follows:

2006	819,226
2007	828,371
2008	453,706
2009	285,755
2010	44,225
Total	<u>\$ 2,431,283</u>

VIII.] RELATED PARTIES

The Association continues to conduct numerous transactions with a variety of industry organizations beyond the scope of the membership. The Association has formed alliances with leading industry news and information organizations, including The Blood-Horse, Inc. and Daily Racing Form, LLC (Official Sponsors of the Association), Equibase Company (Official Supplier of Racing Information and Statistics to the Association) and The Jockey Club Information Systems, Inc. (Official Supplier of Breeding and Sales Information for the Thoroughbred industry to the Association). These partnerships provide the Association with promotional and advertising vehicles and enable the Association to

NOTES to CONSOLIDATED STATEMENTS

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provide timely information and statistics (via the Internet and other media) to both new and existing fans, as well as non-industry publications wishing to cover Thoroughbred racing.

Certain transactions are conducted from time to time between the Association and BCL. The Membership and Management Services Fee provided by BCL to NTRA totaled approximately \$37,000,000 and \$36,000,000 in 2005 and 2004, respectively. The Agreement between the Association and BCL has been revised (see "Membership and Management Services Agreement with Breeders' Cup Limited"). In 2004, NTRA paid the one-time license fee of \$1,600,000 to BCL. As of December 31, 2005 and 2004, long-term debt includes \$4,375,000 and \$5,000,000, respectively, loaned by Breeders' Cup Properties, Inc., a wholly owned subsidiary of BCL, to NTRA Investments. Interest expense for 2005 and 2004 includes approximately \$192,000 and \$200,000, respectively, related to this indebtedness. There is no related interest payable in 2005 or 2004.

IX.] BARTER TRANSACTIONS

The Association has agreements with certain national and industry sponsors that provide mutual non-cash benefits to both parties under barter transactions. The benefits received by the Association from sponsors are recorded as revenue at the fair market value when received. The use of these benefits is recorded as expense at the time of use. For the years ended December 31, 2005 and 2004, the Association recognized revenue and related advertising expense from these sponsors of approximately \$171,000 and \$396,000, respectively.

X.] RETIREMENT PLANS

The National Thoroughbred Racing Association 401(k) Retirement Plan ("Retirement Plan") covers all full-time employees over the age of 21 upon three months of service. Benefits vest over a period of two to five years. The NTRA contributes an amount equal to four percent of a covered employee's salary. In addition, NTRA matches amounts contributed by covered employees. Matching contributions amount to 100 per-

cent of the first three percent of employee contributions. The Retirement Plan's contribution expense approximated \$392,000 and \$370,000 for the years ended December 31, 2005 and 2004, respectively.

The National Thoroughbred Racing Association Deferred Compensation Plan follows in form the Retirement Plan and covers full-time eligible employees whose annual compensation exceeds the 401(k) ERISA salary limits. It exists in accordance with section 457 of the Internal Revenue Code. Under this plan, employee benefits vest at the earlier date of retirement age or the completion of ten years of service (as defined in the plan document). The Deferred Compensation Plan's contribution expense approximated \$35,000 and \$48,000 for the years ended December 31, 2005 and 2004, respectively.

XI.] OFFICERS' COMPENSATION

The NTRA Corporate Officers consist of the Commissioner, Secretary and Treasurer in 2005. During 2006, both the Treasurer and the Commissioner retired; an interim CEO has assumed the duties of Commissioner. During most of 2004 there were four Corporate Officers, including the Commissioner, Vice Chairman, Secretary and Treasurer; however, on September 1, 2004, the Commissioner resigned and the Vice Chairman replaced the Commissioner, leaving three Corporate Officers.

The annual compensation of the NTRA Corporate Officers, as defined above, includes a base salary, annual incentive compensation and long term incentive compensation. Additionally, the officers are included in the NTRA's employee fringe benefits programs. The aggregate annual compensation of the Corporate Officers included in operating expenses on the statements of activities and changes in net assets for the years ended December 31, 2005 and 2004 is \$1,804,387 and \$2,558,328, respectively. Long-term compensation that has been expensed but not paid or earned due to uncompleted years of employment by each of the respective officers, is reported as other long-term liabilities on the statements of financial position, as well as in the aggregate compensation reported above.



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