Thoroughbred Owners of California

Financial Report
Years Ended June 30, 2011 and 2010
With Report of Independent Auditor

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McGladrey

Independent Auditor's Report

To the Board of Directors
Thoroughbred Owners of California
Del Mar, CA

We have audited the accompanying statements of financial position of Thoroughbred Owners of California (TOC) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of TOC's 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thoroughbred Owners of California as of June 30, 2011 and 2010, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that TOC will continue as a going concern. As disclosed in Note 6 to the financial statements, TOC has been notified of a pending petition for its decertification. Potential decertification raises substantial doubt about TOC's ability to continue as a going concern. Management's plans are also described in Note 6. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP

San Diego, CA
October 18, 2011

Thoroughbred Owners of California

Statements of Financial Position
June 30, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Cash and cash equivalents	**$ 181,000**	$ 234,000
Cash, non-pari-mutuel	**426,000**	438,000
Cash held in trust (Note 2)	**-**	8,551,000
U.S. Treasury securities (Note 5)	**401,000**	562,000
Accounts receivable, racetracks and other, less allowance for doubtful accounts 2011 $0; 2010 $9,000	**128,000**	109,000
Prepaid expenses and other current assets	**53,000**	21,000
Total current assets	**1,189,000**	9,915,000
Furniture and Equipment		
Computer equipment and software	**11,000**	9,000
Office equipment, furniture and fixtures	**38,000**	38,000
	49,000	47,000
Less accumulated depreciation	**(46,000)**	(43,000)
	3,000	4,000
	$ 1,192,000	$ 9,919,000

Liabilities and Net Assets	**2011**	2010
Current Liabilities		
Accounts payable and accrued liabilities	**$ 74,000**	$ 76,000
Funds held for competing horsemen (Note 2)	**-**	8,551,000
	74,000	8,627,000
Commitments and Contingencies (Note 3)		
Unrestricted Net Assets	**1,118,000**	1,292,000
	$ 1,192,000	$ 9,919,000

See Notes to Financial Statements.

Thoroughbred Owners of California

Statements of Activities
Years Ended June 30, 2011 and 2010

	2011	2010
Unrestricted revenue and income:		
Proceeds from racetracks	$ 1,028,000	$ 1,208,000
Contributed office space	58,000	58,000
Investment income, net (Note 4)	3,000	8,000
Other	72,000	10,000
Total unrestricted revenue and income	1,161,000	1,284,000
Unrestricted expenses:		
Consulting	181,000	153,000
Newsletter	44,000	102,000
Seminars	11,000	33,000
Board and member meetings	85,000	77,000
Donations	17,000	11,000
Management and general expenses (Note 3)	997,000	1,771,000
Total unrestricted expenses	1,335,000	2,147,000
Decrease in unrestricted net assets	(174,000)	(863,000)
Unrestricted net assets:		
Beginning	1,292,000	2,155,000
Ending	$ 1,118,000	$ 1,292,000

See Notes to Financial Statements.

Thoroughbred Owners of California

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Decrease in unrestricted net assets	**$ (174,000)**	$ (863,000)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:		
Depreciation	**3,000**	1,000
Realized/unrealized losses on investments	**3,000**	14,000
Bad debt expense	**-**	12,000
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable, racetracks and other	**(19,000)**	(8,000)
Note receivable	**-**	450,000
Prepaid expenses and other current assets	**(32,000)**	(5,000)
Decrease in accounts payable and accrued liabilities	**(2,000)**	(29,000)
Net cash used in operating activities	**(221,000)**	(428,000)
Cash Flows From Investing Activities		
Purchases of investments	**(402,000)**	(669,000)
Maturity of investments	**560,000**	962,000
Purchase of equipment	**(2,000)**	(3,000)
Net cash provided by investing activities	**156,000**	290,000
Net decrease in cash and cash equivalents	**(65,000)**	(138,000)
Cash and Cash Equivalents, beginning of year	**672,000**	810,000
Cash and Cash Equivalents, end of year	**$ 607,000**	$ 672,000
Consisting of:		
Cash and cash equivalents	**$ 181,000**	$ 234,000
Cash, non-pari-mutuel	**426,000**	438,000
	$ 607,000	$ 672,000
Supplemental Schedule of Noncash Financing Activities		
Contributed office space	**$ 58,000**	$ 58,000

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Thoroughbred Owners of California (TOC or the Organization) was incorporated in California on March 3, 1993 as a nonprofit mutual benefit corporation dedicated to preserving and promoting the sport of thoroughbred racing by representing owners' interests. All owners of racing thoroughbreds in California are members of TOC.

A summary of the Organization's significant accounting policies follows:

Basis of presentation: The financial statements of TOC have been prepared on the accrual basis of accounting and in accordance with the AICPA's Audit and Accounting Guide, *Not-for-Profit Organizations*.

Net asset classifications: The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations* (codified in Accounting Standards Codification (ASC) 958-205), which requires TOC to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets represent funds which are fully available, at the discretion of management, for TOC to utilize in any of its programs or supporting services. Such assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. There are no temporarily restricted or permanently restricted net assets.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: TOC's revenue consists principally of distributions earned from California racetracks. The racetracks are required by the California Horse Racing Laws to submit a portion of the stakes and purses to TOC. Revenues are recorded when earned.

Cash and cash equivalents: TOC considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

TOC maintains accounts with a commercial bank with funds insured by the Federal Deposit Insurance Corporation (FDIC). TOC's accounts at this institution may, at times, exceed the FDIC-insured limit. TOC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these deposits.

Investments: Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation as of each statement of financial position date. TOC's investments consist of U.S. Treasury securities with original maturities greater than three months. The investments are classified as held-to-maturity and are classified as short term as all investments mature within one year of the statement of financial position date. These investments are carried at fair value. Investment income or losses (including realized and unrealized gains and losses on investments, and interest) are included in investment income, net.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Accounts receivable, racetrack and other: Accounts receivable, racetracks consist of distributions from California racetracks that have been earned but not yet received by TOC, less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by evaluating individual track receivables. Accounts receivable, other consists of amounts due for the use of the collective images of the horses. Other accounts receivable are carried at original invoice amount, less an estimate made for the doubtful accounts based on a review of outstanding accounts. Receivables are written off when deemed uncollectible. Recoveries of racetrack and other receivables previously written off are recorded when received. To date, losses on receivables have been minimal. No interest is charged on overdue accounts.

Furniture and equipment: Furniture and equipment are stated at cost. Depreciation is computed on a straight-line basis over the following estimated useful lives of the related assets:

	Useful Life
Computer equipment and software	3 years
Office equipment, furniture and fixtures	7 years

Expenditures for normal repairs and maintenance are charged to expense as incurred, while expenditures for improvements are capitalized. When equipment is retired or sold, its cost and the related accumulated depreciation are eliminated from the respective accounts, and gains or losses arising from the disposition are recognized in the change in net assets.

Long-lived assets: Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Impairment is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During the fiscal years ended June 30, 2011 and 2010, no such impairment losses have been recorded by TOC.

Contributed office space: Certain racetracks provide office space to TOC at no cost. The value of this rental space is based on an estimated market value of similar rental property and is recorded both in unrestricted revenues and unrestricted expenses.

Income taxes: TOC is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC) and is also exempt from state income and franchise taxes.

The Organization did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period. Management evaluated the Organization’s tax positions and concluded that TOC had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

In August 2006, the Organization received an unrestricted contribution from the National Thoroughbred Racing Association. The Organization has control over these funds.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update requires new fair value measurement disclosures about transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements (purchases, sales, issuances and settlements on a gross basis). The Update also clarifies existing disclosures about the level of disaggregation and about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009 (the year ended June 30, 2011 for TOC), except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (the year ended June 30, 2012 for TOC), and for interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04—*Fair Value Measurement* (Topic 820) to provide clarifications for ASC 820. The Update also describes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with accounting principles generally accepted in the United States of America (GAAP) and International Financial Reporting Standards (IFRS). The guidance provided in this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Organization is in the process of assessing the effect that the implementation of the new guidance will have on its financial position and results of operations.

Note 2. Funds Held for Competing Horsemen

During the year ended June 30, 2009, TOC executed a declaration of trust whereby certain racetracks transferred their paymaster accounts to TOC to be held in trust for horsemen competing at those tracks. TOC may only debit authorized funds to the racetracks' accounts or make authorized transfers for the purpose of reducing banking fees. The funds are segregated into separate accounts and are not to be used by TOC for any reason. The cash is reported as "held in trust" on the statement of financial position with an offsetting liability reported as "funds held for competing horsemen." During the year ended June 30, 2011, TOC terminated the declaration of trust whereby the funds held in trust for horsemen competing at those racetracks were transferred back to the respective tracks.

Note 3. Commitments and Contingencies

Benefit plan: TOC maintained a 401(k) plan. Under the terms of the plan, all full-time employees on payroll are eligible to participate in the Plan and TOC matched 100 percent of eligible employees' contributions up to 6 percent of the employee's gross wages. During the year ended June 30, 2011, TOC terminated the 401(k) plan. The expense during each of the years ended June 30, 2011 and 2010 was $16,000 and $48,000, respectively.

Litigation: TOC is subject to lawsuits and claims that arise out of the normal course of business. TOC maintains insurance coverage which management believes is sufficient to ensure that the final outcome of any claims or proceedings will not have an adverse effect on its financial position, operations or liquidity.

Note 4. Investments

The following schedule summarizes the investment loss on U.S. Treasury securities for the year ended June 30:

	2011	2010
Interest income	$ 6,000	$ 22,000
Realized/unrealized losses	(3,000)	(14,000)
Investment income, net	$ 3,000	$ 8,000

Note 5. Fair Value Measurement

The Organization accounts for its assets and liabilities in accordance with ASC 820. ASC 820 establishes a hierarchy for ranking the quality and reliability of information used to determine fair values and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that TOC has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2011 and 2010:

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2011 U.S. Treasury securities	$ 401,000	$ 401,000		
2010 U.S. Treasury securities	$ 562,000	$ 562,000	$ -	$ -

U.S. Treasury securities are measured using quoted market prices.

Note 6. Subsequent Events

The Organization has evaluated subsequent events through October 18, 2011, the date on which the financial statements were issued.

In August 2011, TOC was notified of a pending petition for its decertification. The California Horse Racing Board (CHRB) subsequently notified TOC of the process underway to validate the signatures on the decertification petition. If sufficient validated signatures have been submitted, the decertification election will be placed on the agenda for the next scheduled meeting of the CHRB, currently scheduled for November 2011. The CHRB will set the date for the election. In the event of a decertification, TOC would lose its license status, which would result in the dissolution of the Organization.

TOC's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The decertification petition raises substantial doubt about the Organization's ability to continue as a going concern. Management of TOC believes the decertification petition is flawed and intends to actively challenge it; however, there is no assurance that management will be successful in challenging the decertification.