

THOROUGHBRED OWNERS OF CALIFORNIA
Report of Independent Auditor and Financial Statements
June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011

THOROUGHBRED OWNERS OF CALIFORNIA

**Report of Independent Auditor and Financial Statements
June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Thoroughbred Owners of California

We have audited the statement of financial position of the Thoroughbred Owners of California as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Thoroughbred Owners of California's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information was based on Thoroughbred Owners of California's June 30, 2011 financial statements which were audited by other auditors and, in whose report dated October 18, 2011, expressed an unqualified opinion on those financial statements.

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 the Thoroughbred Owners of California at June 30, 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

September 19, 2012

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENT OF FINANCIAL POSITION

June 30, 2012

With Comparative Totals at June 30, 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 372,137	\$ 181,274
Cash, non-pari-mutuel	425,172	426,119
U.S. Treasury securities	300,328	400,984
Accounts receivable, race tracks and other	55,248	127,840
Prepaid expenses and other current assets	<u>25,033</u>	<u>52,547</u>
Total current assets	<u>1,177,918</u>	<u>1,188,764</u>
Fixed assets:		
Office equipment, furniture and fixtures	38,235	38,235
Computer equipment and software	<u>6,516</u>	<u>11,176</u>
	44,751	49,411
Accumulated depreciation	<u>(42,366)</u>	<u>(46,400)</u>
Fixed assets, net	<u>2,385</u>	<u>3,011</u>
Total assets	<u>\$ 1,180,303</u>	<u>\$ 1,191,775</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 21,316	\$ 67,184
Accrued liabilities	<u>7,215</u>	<u>6,240</u>
Total current liabilities	<u>28,531</u>	<u>73,424</u>
Total liabilities	<u>28,531</u>	<u>73,424</u>
Net assets:		
Unrestricted net assets	<u>1,151,772</u>	<u>1,118,351</u>
Total net assets	<u>1,151,772</u>	<u>1,118,351</u>
Total liabilities and net assets	<u>\$ 1,180,303</u>	<u>\$ 1,191,775</u>

The accompanying notes are an integral part of these financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Track revenue	\$ 1,055,843	\$ 1,028,213
Contributed office space	57,840	57,840
Investment income	736	2,626
Other	<u>104,079</u>	<u>71,652</u>
Total revenues	<u>1,218,498</u>	<u>1,160,331</u>
Expenses:		
Consulting	86,817	181,382
Newsletter	5,417	44,301
Seminars		11,254
Board and member meetings	62,090	84,582
Donations		16,600
Management and general expenses	<u>1,030,753</u>	<u>996,236</u>
Total expenses	<u>1,185,077</u>	<u>1,334,355</u>
Change in net assets	33,421	(174,024)
Net assets at the beginning of the year	<u>1,118,351</u>	<u>1,292,375</u>
Net assets at the end of the year	<u>\$ 1,151,772</u>	<u>\$ 1,118,351</u>

The accompanying notes are an integral part of these financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 33,421	\$ (174,024)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,192	3,181
Loss on disposal of assets	496	
Realized/unrealized losses on investments	3,185	3,419
Changes in operating assets and liabilities:		
Accounts receivable	72,592	(18,414)
Prepaid expenses and other current assets	27,514	(32,523)
Accounts payable and accrued liabilities	<u>(44,893)</u>	<u>(2,557)</u>
Net cash provided by (used in) operating activities	<u>94,507</u>	<u>(220,918)</u>
 Cash flows from investing activities:		
Purchases of investments	(502,529)	(401,860)
Maturity of investments	600,000	560,000
Purchases of equipment	<u>(2,062)</u>	<u>(1,689)</u>
Net cash provided by investing activities	<u>95,409</u>	<u>156,451</u>
 Net increase (decrease) in cash and cash equivalents	 189,916	 (64,467)
 Cash and cash equivalents - beginning of year	 <u>607,393</u>	 <u>671,860</u>
 Cash and cash equivalents - end of year	 <u>\$ 797,309</u>	 <u>\$ 607,393</u>

The accompanying notes are an integral part of these financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of Business

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

Basis of Presentation

TOC's financial statements have been prepared on the accrual basis of accounting. The assets, liabilities and net assets for TOC are reported within the category below:

“Unrestricted Net Assets” – net assets of TOC that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

There are no temporarily restricted or permanently restricted net assets at June 30, 2012.

Cash and Cash Equivalents

TOC considers all short-term highly liquid investments with original maturities at time of purchase of three months or less to be cash equivalents. Cash equivalents are held by major financial institutions. TOC is subject to risk for amounts in excess of Federal Deposit Insurance Corporation limits (FDIC).

Concentration of Credit Risk

TOC maintains its cash and cash equivalents with one major commercial bank. The bank accounts are guaranteed by the FDIC up to \$250,000. At various times throughout the year, TOC's bank balances may be in excess of the FDIC insurance 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.

TOC maintains U.S. Treasury securities with one financial institution that is insured by the Securities Investor Protection Corporation (SIPC). The SIPC protects assets for up to \$500,000 in the case of broker-dealer insolvency and not against decline in market values. As of June 30, 2012, the market value of Treasury securities held by TOC was below the SIPC insured amount of \$500,000.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable primarily consist of distributions from California racetracks that have been earned but not yet received by TOC as well as amounts due for the use of the collective images of the horses, less an estimate for doubtful accounts. TOC provides for losses on accounts receivable using the allowance method. Management determines the allowance for doubtful accounts by evaluating individual track receivables and reviewing the length of time an account has been outstanding. It is TOC's policy to write off receivables when management determines the receivable will not be collected.

Property and Equipment

TOC capitalizes assets that have a useful life of more than one year and meet the dollar threshold of TOC's capitalization policy. Property and equipment are stated at cost. Depreciation is recorded based on the straight-line method over the estimated useful lives of the related assets, which have been determined to be three years for computer equipment and software and seven years for office equipment, furniture and fixtures. TOC recorded depreciation expense of \$2,192 for the year ended June 30, 2012.

The cost and related accumulated depreciation of equipment that is retired or sold is eliminated from the respective accounts and resulting gains or losses, if any, are recognized as a change of net assets.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Revenue Recognition

TOC receives statutory percentages of pari-mutuel pools. In accordance with California horse racing law, the pari-mutuel pools are audited daily to determine, among other things, the amounts due to TOC. Amounts are remitted TOC based on contractual arrangements with the horse racing associations. All revenues from tracks are derived from pari-mutuel pools at California racing tracks. The loss of such revenues would have an adverse impact on TOCs' ability to operate.

Revenue from county fair racing events is recognized when TOC is eligible to receive monies from the fairs, which is within ten days of the event. Amounts are calculated using the total purse monies.

Tax-Exempt Status

TOC is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(6) and California Revenue and Taxation Code Section 23701(e). Accordingly, no provision has been made for income taxes. Management has determine that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. TOC files information returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Prior Year Summarized Information:

The financial statements and footnotes include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the TOC's financial statements for the year ended June 30, 2011 from which the information was derived.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - FAIR VALUE MEASUREMENTS:

Financial accounting standards establish a framework for measuring fair values. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. For each level of the hierarchy, the fair value level measurement is classified as follows:

- Level 1 – Quoted prices in an active market for identical assets.
- Level 2 – Quoted prices for similar assets and market – corroborated inputs
- Level 3 – Quoted price not readily available. Fair value based on best information available.

TOC has investments in U.S. Treasury securities with original maturities greater than three months and are classified as short term held-to-maturity investments as all investments mature within one year of the statement of financial position date. These investments are recorded at fair value at quoted prices in active markets for identical assets (level 1 fair value measurement). As of June 30, 2012, the quoted prices in the active market for the U.S. Treasury securities held by TOC was \$300,328. As of June 30, 2012, TOC had no level 2 or level 3 investments.

The following schedule summarizes the investment return which is recognized as unrestricted income in the statement of activities for the year ended June 30, 2012:

	<u>2012</u>
Interest income	\$ 3,921
Realized/Unrealized losses	<u>(3,185)</u>
Net investment income	<u>\$ 736</u>

NOTE 3 - RELATED-PARTY TRANSACTIONS:

Certain racetracks provide office space to TOC at no cost. The value of this rental space is based on estimated market value of similar rental property and is recorded in both unrestricted revenues and unrestricted expenses. The total for fiscal year ended June 30, 2012 was \$57,840.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 - COMMITMENTS AND CONTINGENCIES:

In the course of operations, TOC is subject to the risk of legal actions such as litigation, claims, and assessments with other parties. 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. As of the date of the audit report, TOC is not involved in any such legal matters.

NOTE 5 - SUBSEQUENT EVENTS:

TOC has evaluated subsequent events through September 19, 2012, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition.