

THOROUGHBRED OWNERS OF CALIFORNIA
Report of Independent Auditor and Financial Statements
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Thoroughbred Owners of California

Report on the Financial Statements

We have audited the accompanying financial statements of the Thoroughbred Owners of California (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Thoroughbred Owners of California's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Thoroughbred Owners of California's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2017

	ASSETS	
	2017	2016
Current assets:		
Cash and cash equivalents	\$ 187,063	\$ 1,263,600
Cash, non-pari-mutuel	127,861	377,053
Investments	1,199,124	91,404
Investments, non-pari-mutuel	299,781	49,994
Accounts receivable, race tracks and other	116,172	145,799
Prepaid expenses and other current assets	56,163	46,825
Total current assets	1,986,164	1,974,675
Fixed assets:		
Office equipment, furniture and fixtures	40,516	38,729
Computer equipment and software	12,359	8,988
	52,875	47,717
Accumulated depreciation	(47,366)	(45,944)
Fixed assets, net	5,509	1,773
Total assets	\$ 1,991,673	\$ 1,976,448
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 16,155	\$ 26,521
Accrued liabilities	12,380	-
Total current liabilities	28,535	26,521
Total liabilities	28,535	26,521
Net assets:		
Unrestricted net assets	1,963,138	1,949,927
Total net assets	1,963,138	1,949,927
Total liabilities and net assets	\$ 1,991,673	\$ 1,976,448

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

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Track revenue	\$ 1,064,504	\$ 1,076,694
Contributed office space	59,016	59,016
Investment income	3,056	2,415
Management services	77,500	25,000
Sponsorships	<u>48,000</u>	<u>31,500</u>
Total revenues	<u>1,252,076</u>	<u>1,194,625</u>
Expenses:		
Consulting	313,019	254,389
Newsletter	7,075	18,094
Board and member meetings	27,741	52,593
Donations	-	20,236
Management and general expenses	<u>891,030</u>	<u>730,351</u>
Total expenses	<u>1,238,865</u>	<u>1,075,663</u>
Change in net assets	13,211	118,962
Net assets at the beginning of the year	<u>1,949,927</u>	<u>1,830,965</u>
Net assets at the end of the year	<u>\$ 1,963,138</u>	<u>\$ 1,949,927</u>

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

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 13,211	\$ 118,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,422	1,480
Realized and unrealized (gains) losses on investments	(2,542)	(719)
Changes in operating assets and liabilities:		
Accounts receivable	29,627	39,251
Prepaid expenses and other current assets	(9,338)	(12,297)
Accounts payable and accrued liabilities	2,014	(66,596)
Net cash provided by operating activities	34,394	80,081
Cash flows from investing activities:		
Purchases of investments	(5,530,359)	(1,880,578)
Maturity of investments	4,175,394	3,191,158
Purchases of equipment	(5,158)	(2,839)
Net cash provided by (used in) investing activities	(1,360,123)	1,307,741
Net increase (decrease) in cash and cash equivalents	(1,325,729)	1,387,822
Cash and cash equivalents - beginning of year	1,640,653	252,831
Cash and cash equivalents - end of year	\$ 314,924	\$ 1,640,653
Cash and equivalents:		
Cash and cash equivalents	\$ 187,063	\$ 1,263,600
Cash, non-pari-mutuel	127,861	377,053
Total cash and equivalents	\$ 314,924	\$ 1,640,653

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

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 or 2016.

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.

Concentration of Credit Risk

TOC maintains cash and cash equivalents with one major financial institution. The cash and cash equivalent balances are guaranteed by the Federal Deposit Insurance Commission (FDIC) up to \$250,000. At various times throughout the year, TOC's bank balance may be in excess of the FDIC insured limit. TOC has not experienced any loss in such account and believes it is not exposed to any significant credit risk related to these deposits.

TOC maintains securities investments 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. At June 30, 2017, the market value of securities held by TOC exceeded the SIPC insured amount of \$500,000; however, the institution maintains supplemental insurance with a large, independent insurer.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 various sponsorship opportunities and management services provided to other organizations, 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 against accounts receivable and the allowance 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 \$1,422 and \$1,480 for the years ended June 30, 2017 and 2016, respectively.

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 in net assets.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 to TOC based on contractual arrangements with the horse racing associations. Most revenues from tracks are derived from pari-mutuel pools at California racing tracks, and the remaining revenues are from separate pools sources. The loss of such revenues would have an adverse impact on TOC's 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 determined that all income tax positions are more likely than not 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.

Reclassifications

Certain items in the 2016 financial statements have been reclassified for comparability purposes with the 2017 financial statements. These reclassifications had no effect on previously reported net income or equity.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 municipal bonds and 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). The quoted prices in the active market for the securities held by TOC were \$1,498,905 and \$141,398 at June 30, 2017 and 2016 respectively. As of June 30, 2017 and 2016, 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 years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 514	\$ 1,696
Realized/Unrealized Gains	<u>2,542</u>	<u>719</u>
Net investment income	<u>\$ 3,056</u>	<u>\$ 2,415</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 value of donated rental space was \$59,016 for both fiscal years ended June 30, 2017 and 2016.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, there are no pending litigations.

NOTE 5 - SUBSEQUENT EVENTS:

TOC has evaluated subsequent events through September 18, 2017, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition.