

**THOROUGHBRED OWNERS OF CALIFORNIA**  
**Report of Independent Auditor and Financial Statements**  
**June 30, 2018 and 2017**



[CLAconnect.com](http://CLAconnect.com)

WEALTH ADVISORY  
OUTSOURCING  
AUDIT, TAX, AND  
CONSULTING

**THOROUGHBRED OWNERS OF CALIFORNIA**  
**Report of Independent Auditor and Financial Statements**  
**June 30, 2018 and 2017**

**Table of Contents**

	<b><u>Page</u></b>
Independent Auditors' Report.....	1
Audited Financial Statements:	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements.....	6

## INDEPENDENT AUDITORS' 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, 2018 and 2017, 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.

### **Auditors' 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 auditors' 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.

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Thoroughbred Owners of California

### 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, 2018 and 2017, and the changes in its net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

CliftonLarsonAllen LLP  
Glendora, California  
February 21, 2019

**THOROUGHBRED OWNERS OF CALIFORNIA**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 774,934	\$ 187,063
Cash, non-pari-mutuel	4,020	127,861
Investments	987,040	1,199,124
Investments, non-pari-mutuel	394,816	299,781
Accounts receivable, race tracks and other	218,580	116,172
Prepaid expenses and other current assets	64,429	56,163
Total current assets	<u>2,443,819</u>	<u>1,986,164</u>
Fixed assets:		
Office equipment, furniture and fixtures	43,323	40,516
Computer equipment and software	12,359	12,359
	55,682	52,875
Accumulated depreciation	(49,926)	(47,366)
Fixed assets, net	<u>5,756</u>	<u>5,509</u>
Total assets	<u>\$ 2,449,575</u>	<u>\$ 1,991,673</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 31,158	\$ 16,155
Accrued liabilities	316,000	12,380
Total current liabilities	<u>347,158</u>	<u>28,535</u>
Total liabilities	<u>347,158</u>	<u>28,535</u>
Net assets:		
Unrestricted net assets	2,102,417	1,963,138
Total net assets	<u>2,102,417</u>	<u>1,963,138</u>
Total liabilities and net assets	<u>\$ 2,449,575</u>	<u>\$ 1,991,673</u>

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

**THOROUGHBRED OWNERS OF CALIFORNIA**

**STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenues:		
Track revenue	\$ 1,160,090	\$ 1,064,504
Insurance Proceeds	300,000	-
Management services	172,500	77,500
Sponsorships	71,496	48,000
Investment income / (loss)	(6,778)	3,056
Contributed office space	59,016	59,016
Total revenues	<u>1,756,324</u>	<u>1,252,076</u>
Expenses:		
Consulting	370,674	313,019
Owner assistance - Insurance	300,000	-
Newsletter	10,236	7,075
Board and member meetings	36,453	27,741
Donations	48,150	-
Management and general expenses	851,532	891,030
Total expenses	<u>1,617,045</u>	<u>1,238,865</u>
Change in net assets	139,279	13,211
Net assets at the beginning of the year	<u>1,963,138</u>	<u>1,949,927</u>
Net assets at the end of the year	<u>\$ 2,102,417</u>	<u>\$ 1,963,138</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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 139,279	\$ 13,211
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,560	1,422
Realized and unrealized (gains) losses on investments	53,927	(2,542)
Changes in operating assets and liabilities:		
Accounts receivable	(102,408)	29,627
Prepaid expenses and other current assets	(8,266)	(9,338)
Accounts payable and accrued liabilities	318,623	2,014
Net cash provided by operating activities	403,715	34,394
 <b>Cash flows from investing activities:</b>		
Purchases of investments	(1,624,036)	(5,530,359)
Maturity of investments	1,687,158	4,175,394
Purchases of equipment	(2,807)	(5,158)
Net cash provided by (used in) investing activities	60,315	(1,360,123)
 <b>Net increase (decrease) in cash and cash equivalents</b>	464,030	(1,325,729)
 <b>Cash and cash equivalents - beginning of year</b>	314,924	1,640,653
 <b>Cash and cash equivalents - end of year</b>	\$ 778,954	\$ 314,924
 <b>Cash and equivalents:</b>		
Cash and cash equivalents	\$ 774,934	\$ 187,063
Cash, non-pari-mutuel	4,020	127,861
Total cash and equivalents	\$ 778,954	\$ 314,924

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

# THOROUGHBRED OWNERS OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### **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 net assets for TOC are reported within the category below:

“Unrestricted Net Assets” – net assets available for use in general operations.

There are no temporarily restricted or permanently restricted net assets at June 30, 2018 or 2017.

#### **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, 2018, 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, 2018 and 2017**

**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 of America 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. Management has evaluated accounts receivable and believes all receivables to be collectible; thus there is no allowance for doubtful accounts as of June 30, 2018 or 2017.

**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 \$2,560 and \$1,422 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017**

**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.

**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.

**THOROUGHBRED OWNERS OF CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**NOTE 2 - FAIR VALUE MEASUREMENTS: (continued)**

TOC has investments in money market (level 1 fair value measurement) and bonds (level 2 fair value measurement) with original maturities greater than three months that are classified as short term investments as these investments mature within one year of the statement of financial position date. As of June 30, 2018, TOC had no level 3 investments. As of June 30, 2017, TOC had no level 2 or level 3 investments.

Investments at Fair Value as of June 30, 2018

	Level 1	Level 2	Total
Money market	\$ 1,375,434	\$ -	\$ 1,375,434
Bonds	-	6,422	6,422
Total investments	\$ 1,375,434	\$ 6,422	\$ 1,381,856

Investments at Fair Value as of June 30, 2017

	Level 1	Level 2	Total
Money market	\$ 1,199,124	\$ -	\$ 1,199,124
Total investments	\$ 1,199,124	\$ -	\$ 1,199,124

The following schedule summarizes the investment return which is recognized as unrestricted income in the statement of activities for the years ended June 30, 2018 and 2017:

	2018	2017
Interest income	\$ 47,149	\$ 514
Realized/unrealized gains	(53,927)	2,542
Net investment income (loss)	\$ (6,778)	\$ 3,056

**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, 2018 and 2017.

**NOTE 4 – SAN LUIS REY DOWNS INSURANCE PROCEEDS/PAYMENTS:**

On December 7, 2017, a devastating wind-driven fire designated as the Lilac fire swept through the grounds at the San Luis Rey Downs training facility. Although more than 400 horses were saved, tragically 46 horses perished. Thoroughbred Owners of California maintained an insurance policy on the facility, and it paid out the policy limit of \$300,000 in June 2018. The

**THOROUGHBRED OWNERS OF CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**NOTE 4 – SAN LUIS REY DOWNS INSURANCE PROCEEDS/PAYMENTS: (continued)**

TOC Board voted to distribute the funds on a prorata basis to those owners who had horses of racing age that had perished in the fire and were uninsured. Payments were made in November 2018 to 16 ownership groups representing 35 horses. The board has elected to withhold a portion of the insurance proceeds in the event that other claims are made or costs incurred over the next year.

**NOTE 5 - 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 6 - SUBSEQUENT EVENTS:**

TOC has evaluated subsequent events through February 21, 2019, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition.

