

# Thoroughbred Owners of California

Financial Report

June 30, 2009

**McGladrey & Pullen**

Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## 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, 2009 and 2008, 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, 2009 and 2008, 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.

*McGladrey & Pullen, LLP*

San Diego, CA  
October 21, 2009

# Thoroughbred Owners of California

## Statements of Financial Position June 30, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current Assets		
Cash and cash equivalents	\$ 292,000	\$ 187,000
U.S. Treasury securities	869,000	871,000
Accounts receivable, racetracks, less allowance for doubtful accounts of \$0 for 2009 and \$8,000 for 2008	113,000	166,000
Prepaid expenses and other current assets	16,000	15,000
<b>Total current assets</b>	<b>1,290,000</b>	<b>1,239,000</b>
Furniture and Equipment		
Computer equipment and software	6,000	25,000
Office equipment, furniture and fixtures	38,000	38,000
	44,000	63,000
Less accumulated depreciation	(42,000)	(57,000)
	2,000	6,000
	<b>\$ 1,292,000</b>	<b>\$ 1,245,000</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities, accounts payable and accrued liabilities	\$ 64,000	\$ 51,000
Commitment and Contingencies (Note 2)		
Unrestricted Net Assets	1,228,000	1,194,000
	<b>\$ 1,292,000</b>	<b>\$ 1,245,000</b>

See Notes to Financial Statements.

Thoroughbred Owners of California

Statements of Activities

Years Ended June 30, 2009 and 2008

	2009	2008
Unrestricted revenue and income:		
Proceeds from racetracks	\$ 1,396,000	\$ 1,465,000
Contributed office space	56,000	56,000
Investment income, net	24,000	41,000
Other	-	1,000
<b>Total unrestricted revenue and income</b>	<b>1,476,000</b>	<b>1,563,000</b>
Unrestricted expenses:		
Consulting	146,000	189,000
Newsletter	106,000	91,000
Seminars	45,000	49,000
Board and member meetings	60,000	62,000
Donations	13,000	14,000
Management and general expenses (Note 2)	1,072,000	1,145,000
<b>Total unrestricted expenses</b>	<b>1,442,000</b>	<b>1,550,000</b>
<b>Increase in unrestricted net assets</b>	<b>34,000</b>	<b>13,000</b>
Unrestricted net assets:		
Beginning	1,194,000	1,181,000
Ending	<b>\$ 1,228,000</b>	<b>\$ 1,194,000</b>

See Notes to Financial Statements.

**Thoroughbred Owners of California**

**Statements of Cash Flows**

**Years Ended June 30, 2009 and 2008**

	2009	2008
Cash Flows From Operating Activities		
Changes in unrestricted net assets	\$ 34,000	\$ 13,000
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation	3,000	2,000
Loss on retirement of equipment	1,000	
Unrealized loss on investments	16,000	
Bad debt expense	-	7,500
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable, racetracks	53,000	79,500
Prepaid expenses and other current assets	(1,000)	2,000
Increase (decrease) in accounts payable and accrued liabilities	13,000	(47,000)
<b>Net cash provided by operating activities</b>	<b>119,000</b>	<b>57,000</b>
Cash Flows From Investing Activities		
Purchases of investments	(874,000)	(877,000)
Maturity of investments	860,000	864,000
Purchase of equipment	-	(5,000)
<b>Net cash (used in) investing activities</b>	<b>(14,000)</b>	<b>(18,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>105,000</b>	<b>39,000</b>
Cash and Cash Equivalents, beginning of year	187,000	148,000
Cash and Cash Equivalents, end of year	<b>\$ 292,000</b>	<b>\$ 187,000</b>
Supplemental Schedule of Noncash Financing Activities		
Contributed office space	<b>\$ 56,000</b>	<b>\$ 56,000</b>

See Notes to Financial Statements.

# Thoroughbred Owners of California

## Notes to Financial Statements

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### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Thoroughbred Owners of California (TOC) 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 significant accounting policies utilized by TOC 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*, 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 program 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.

**Reclassifications:** Certain items in the 2008 financial statements have been reclassified to conform to the 2009 presentation. These reclassifications had no impact on unrestricted net assets.

**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 reevaluates 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. Investments that mature within one year of the statement of financial position date are classified as short-term; all others are classified as long-term. These investments are carried at fair value, which approximates cost. Investment income or losses (including realized and unrealized gains and losses on investments, and interest) are included in investment income, net.

**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:

	<u>Useful Life</u>
Computer equipment and software	3 years
Office equipment, furniture and fixtures	7 years

**Note 1. Nature of Organization and Significant Accounting Policies, Continued**

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.

**Accounts receivable, racetracks:** Accounts receivable 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. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. To date, losses on receivables have been minimal. No interest is charged on overdue accounts.

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

**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 in 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.

**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, 2009 and 2008, no such impairment losses have been recorded by TOC.

**Recent accounting pronouncements:** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Company has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to the adoption of FIN 48, the Company will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Company to accrue for losses it believes are probable and can be reasonably estimated. An analysis of the impact of FIN 48 is not yet complete; however, upon adoption, TOC expects to record an adjustment to reduce opening retained earnings by an amount which is not material to its financial statements.

**Note 1. Nature of Organization and Significant Accounting Policies, Continued**

**Recent accounting pronouncements (continued):** In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS No. 157 for the fiscal year beginning July 1, 2008, except for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, for which delayed application is permitted until fiscal year beginning July 1, 2009. TOC's management is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. TOC's management has evaluated and determined that the entity will not adopt SFAS No. 159 and will thus not impact its statements of financial position and net assets.

**Note 2. Commitment and Contingencies**

**Benefit plan:** TOC maintains a 401(k) plan. Under the terms of the plan, all employees on payroll are eligible and TOC contributes 6 percent of gross wages for each eligible employee. The expense during each of the years ended June 30, 2009 and 2008 was \$44,000 and \$41,000, 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 3. Investments**

The following schedule summarizes the investment loss on U.S. Treasury securities:

	<u>June 30, 2009</u>
Interest	\$ 8,000
Unrealized losses	(16,000)
Loss on investment	<u>\$ (8,000)</u>

There are no realized gains or losses.

## Thoroughbred Owners of California

### Notes to Financial Statements

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#### Note 4. Fair Value Measurement

TOC adopted SFAS No. 157, *Fair Value Measurements*, in 2008. SFAS No. 157 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 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, 2009:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total		
U.S. Treasury securities	\$ 868,682	\$ 868,682	\$ -

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

#### Note 5. Subsequent Events

The Organization evaluated subsequent events through October 21, 2009, the date the financial statements were issued.