

THOROUGHBRED OWNERS OF CALIFORNIA
Report of Independent Auditor and Financial Statements
June 30, 2014 and 2013

THOROUGHBRED OWNERS OF CALIFORNIA

**Report of Independent Auditor and Financial Statements
June 30, 2014 and 2013**

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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 basic financial statements of the Thoroughbred Owners of California (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 of 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.

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, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

October 3, 2014

THOROUGHBRED OWNERS OF CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	ASSETS	
	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 250,924	\$ 314,999
Cash, non-pari-mutuel	426,357	425,595
Investments	902,057	618,470
Accounts receivable, race tracks and other	214,193	134,991
Prepaid expenses and other current assets	<u>30,619</u>	<u>27,202</u>
Total current assets	<u>1,824,150</u>	<u>1,521,257</u>
Fixed assets:		
Office equipment, furniture and fixtures	38,235	38,235
Computer equipment and software	<u>7,917</u>	<u>7,917</u>
	46,152	46,152
Accumulated depreciation	<u>(46,016)</u>	<u>(44,299)</u>
Fixed assets, net	<u>136</u>	<u>1,853</u>
Total assets	<u>\$ 1,824,286</u>	<u>\$ 1,523,110</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 21,502	\$ 37,927
Accrued liabilities	<u>8,944</u>	<u>5,433</u>
Total current liabilities	<u>30,446</u>	<u>43,360</u>
Total liabilities	<u>30,446</u>	<u>43,360</u>
Net assets:		
Unrestricted net assets	<u>1,793,840</u>	<u>1,479,750</u>
Total net assets	<u>1,793,840</u>	<u>1,479,750</u>
Total liabilities and net assets	<u>\$ 1,824,286</u>	<u>\$ 1,523,110</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Track revenue	\$ 1,224,669	\$ 1,156,808
Contributed office space	59,016	59,016
Investment income	3,413	2,341
Other	<u>74,932</u>	<u>92,784</u>
Total revenues	<u>1,362,030</u>	<u>1,310,949</u>
Expenses:		
Consulting	44,467	64,720
Newsletter	25,851	21,672
Board and member meetings	37,971	50,748
Donations	10,000	300
Management and general expenses	<u>929,651</u>	<u>845,531</u>
Total expenses	<u>1,047,940</u>	<u>982,971</u>
Change in net assets	314,090	327,978
Net assets at the beginning of the year	<u>1,479,750</u>	<u>1,151,772</u>
Net assets at the end of the year	<u>\$ 1,793,840</u>	<u>\$ 1,479,750</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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 314,090	\$ 327,978
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,717	1,933
Realized and unrealized losses on investments	13,874	3,085
Changes in operating assets and liabilities:		
Accounts receivable	(79,202)	(79,743)
Prepaid expenses and other current assets	(3,417)	(2,169)
Accounts payable and accrued liabilities	(12,914)	14,829
Net cash provided by operating activities	234,148	265,913
 Cash flows from investing activities:		
Purchases of investments	(1,662,872)	(1,221,227)
Maturity of investments	1,365,411	900,000
Purchases of equipment	-	(1,401)
Net cash (used in) investing activities	(297,461)	(322,628)
 Net (decrease) in cash and cash equivalents	(63,313)	(56,715)
 Cash and cash equivalents - beginning of year	740,594	797,309
 Cash and cash equivalents - end of year	\$ 677,281	\$ 740,594

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

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 or 2013.

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, 2014, 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, 2014 and 2013

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 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 \$1,717 and \$1,933 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013

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 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 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.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 \$902,057 and \$618,470 at June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest income	\$ 17,287	\$ 5,426
Realized/Unrealized losses	<u>(13,874)</u>	<u>(3,085)</u>
Net investment income	<u>\$ 3,413</u>	<u>\$ 2,341</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 \$59,016 was the same for both fiscal years ended June 30, 2014 and 2013.

THOROUGHBRED OWNERS OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 involved in a pending lawsuit. Both legal counsel and the board believe there is minimal risk to TOC.

NOTE 5 - SUBSEQUENT EVENTS:

TOC has evaluated subsequent events through October 3, 2014, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition.