

THOROUGHBRED OWNERS OF CALIFORNIA

(a California Nonprofit Corporation)

**REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS**

June 30, 2019 and 2018



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THOROUGHBRED OWNERS OF CALIFORNIA
(a California Nonprofit Corporation)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Thoroughbred Owners of California

We have audited the accompanying financial statements of Thoroughbred Owners of California (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses 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 audit 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 Organization'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 Organization'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 on the previous page present fairly, in all material respects, the financial position of Thoroughbred Owners of California, Inc. as of June 30, 2019 and 2018, and the change 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.

Emphasis of a Matter

Change in Accounting Principles

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, Thoroughbred Owners of California adopted the Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our auditors' opinion was not modified with respect to the implementation.



CliftonLarsonAllen LLP
Glendora, California
April 29, 2020

AUDITED FINANCIAL STATEMENTS

THOROUGHBRED OWNERS OF CALIFORNIA
(a California Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 173,397	\$ 774,934
Cash, non-pari-mutuel	3,213	4,020
Investments	1,427,531	987,040
Investments, non-pari-mutuel	394,816	394,816
Accounts receivable, race tracks and other	170,133	218,580
Prepaid expenses and other current assets	56,616	64,429
Total current assets	2,225,706	2,443,819
Fixed assets:		
Office equipment, furniture and fixtures	43,323	43,323
Computer equipment and software	12,359	12,359
	55,682	55,682
Accumulated depreciation	(52,206)	(49,926)
Fixed assets, net	3,476	5,756
Total assets	\$ 2,229,182	\$ 2,449,575

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 14,011	\$ 31,158
Accrued liabilities	65,000	316,000
Total current liabilities	79,011	347,158
Total liabilities	79,011	347,158
Net assets:		
Net assets without donor restrictions	2,150,171	2,102,417
Total net assets	2,150,171	2,102,417
Total liabilities and net assets	\$ 2,229,182	\$ 2,449,575

See accompanying notes to the financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA
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STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019	2018
	Without Donor Restrictions	
Revenues:		
Track revenue	\$ 1,042,178	\$ 1,160,090
Management services	175,007	172,500
Sponsorships	60,000	71,496
Insurance Proceeds	-	300,000
Investment income (loss)	40,545	(6,778)
Contributed office space	59,016	59,016
Total revenues	1,376,746	1,756,324
Expenses:		
Program	1,197,927	1,489,030
Management and general expenses	131,065	128,015
Total expenses	1,328,992	1,617,045
Change in net assets	47,754	139,279
Net assets at the beginning of the year	2,102,417	1,963,138
Net assets at the end of the year	\$ 2,150,171	\$ 2,102,417

See accompanying notes to the financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA
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STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2019 and 2018

	2019		
	Program	Management & General	Total
Salaries and employee benefits	\$ 484,113	\$ 34,784	\$ 518,897
Professional and outside services	443,545	66,150	509,695
General office expense	89,719	14,979	104,698
Insurance	41,464	7,317	48,781
Conferences, meetings and travel	137,034	7,607	144,641
Depreciation	2,052	228	2,280
Total Expenses	\$ 1,197,927	\$ 131,065	\$ 1,328,992

	2018		
	Program	Management & General	Total
Salaries and employee benefits	\$ 533,260	\$ 34,422	\$ 567,682
Professional and outside services	406,045	62,815	468,860
General office expense	99,910	16,958	116,868
Insurance	41,345	7,296	48,641
Conferences, meetings and travel	106,166	6,268	112,434
Depreciation	2,304	256	2,560
Owner assistance	300,000	-	300,000
Total Expenses	\$ 1,489,030	\$ 128,015	\$ 1,617,045

See accompanying notes to the financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA
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STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 47,754	\$ 139,279
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,280	2,560
Realized and unrealized losses on investments	696	53,927
Changes in operating assets and liabilities:		
Accounts receivable	48,447	(102,408)
Prepaid expenses and other current assets	7,813	(8,266)
Accounts payable and accrued liabilities	(268,147)	318,623
Net cash provided (used) by operating activities	(161,157)	403,715
 Cash flows from investing activities:		
Purchases of investments	(1,823,043)	(1,624,036)
Maturity of investments	1,381,856	1,687,158
Purchases of equipment	-	(2,807)
Net cash provided (used) by investing activities	(441,187)	60,315
 Net increase (decrease) in cash and cash equivalents	(602,344)	464,030
 Cash and cash equivalents - beginning of year	778,954	314,924
 Cash and cash equivalents - end of year	\$ 176,610	\$ 778,954
 Cash and equivalents:		
Cash and cash equivalents	\$ 173,397	\$ 774,934
Cash, non-pari-mutuel	3,213	4,020
Total cash and equivalents	\$ 176,610	\$ 778,954

See accompanying notes to the financial statements.

THOROUGHBRED OWNERS OF CALIFORNIA
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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.

Estimates and Assumptions

The Organization prepares its financial statements using full accrual method. 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.

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 two financial institutions that are 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, 2019, 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.

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

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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, 2019 or 2018.

Investments

TOC records investments at fair value. Realized gains and losses are determined using the historical cost method. Interest is recognized when earned.

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 \$2,280 and \$2,560 for the years ended June 30, 2019 and 2018, 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.

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.

TOC also receives revenue in exchange for providing certain management and supporting services for other horse racing entities. Annual charges are determined and revenue is recorded monthly as services are performed.

THOROUGHBRED OWNERS OF CALIFORNIA
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Functional Expense Allocation

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classifications detail of expenses by function. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Certain costs have been allocated among the program and supporting services benefited, based upon management's estimates.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as Net Assets Released from Restrictions.

As of June 30, 2019 and 2018, Thoroughbred Owners of California had no net assets with donor restrictions.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. TOC has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

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 money market and certificates of deposits (level 1 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, 2019, TOC had no level 2 or level 3 investments. As of June 30, 2018, TOC had no level 3 investments.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2: FAIR VALUE MEASUREMENTS

Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Total
Money market	\$ 100,237	\$ -	\$ 100,237
Certificate of Deposits	-	1,722,110	1,722,110
Total investments	\$ 100,237	\$ 1,722,110	\$ 1,822,347

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

The following schedule summarizes the investment return which is recognized as unrestricted income in the statement of activities for the years ended June 30, 2019 and 2018:

	2019	2018
Interest income	\$ 41,241	\$ 47,149
Realized/unrealized gains	(696)	(53,927)
Net investment income (loss)	\$ 40,545	\$ (6,778)

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 each fiscal year ended June 30, 2019 and 2018, respectively.

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: LIQUIDITY

Cash and cash equivalents of \$176,610 and \$170,133 of accounts receivable, in addition to \$1,822,347 of certificates of deposit were available for general expenditure that is, without donor or other restrictions limiting their use, within one year of the statement of net position. As part of its liquidity management plan, the Company invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6: SUBSEQUENT EVENTS

TOC has evaluated subsequent events through April 29, 2020, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition.

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