



NOTICE OF PUBLIC MEETING OF THE PIMA COUNTY FAIR HORSE RACING COMMISSION

Pursuant to A.R.S. §38-431.02, notice is hereby given to the members of the Pima County Fair Horse Racing Commission and to the general public that the Pima County Fair Horse Racing Commission will hold a meeting open to the public on Wednesday, October 15, 2014 at 3:30 PM at the **Natural Resources Parks and Recreation Offices located on 3500 W. River Rd in the 1st Floor conference room**. Pursuant to A.R.S. §38-431.03(A), the P.C. Fair Horse Racing Commission may vote to go into executive session, which will not be open to the public, to discuss certain matters, if necessary.

AGENDA

- I. Welcoming
- II. Introduction of Guests and New Commissioner
- III. Approval of August 27, 2014 Minutes
- IV. Election of Officer – Vice Chair
- V. Overview of the 2014 Racing Season and Financials by PCHRA
- VI. Presentation of Upcoming Racing Season by Rillito Racing Inc.
- VII. Review of Rillito Race Track Inventory Items- Memorabilia and Art Works Ownership
- VIII. Discussion and possible action on the State of Arizona Alcohol License of Rillito Racetrack
- IX. Review of Future Agenda Items and Meeting Schedule
- X. Call to the Public

Attach: Minutes- August 27, 2014
Financial Reports FY 2013 & FY 2014

Pima County Fair Horse Racing Commission

Minutes

August 27, 2014

NRPR Offices

DRAFT

In attendance:

Commissioner

Present:

- Ramon Bazurto
- Bill Matthews
- Forrest Metz
- Geronimo Ramirez, Jr.

Not Present:

- John K. Goodman

County Liaison

- Tom Moulton

I. Welcoming and Introductions

In lieu of a Chair and Vice-Chair due to the reappointment of Commissioners, Tom Moulton called the meeting of the Pima County Fair Horse Racing Commission (PCFHRC) to order at 4:05 pm in the NRPR conference room in lieu of the Chair until such time the Chair and Vice-Chair were elected at the meeting. The guest sheet is attached and included Jaye Wells from Rillito Racing Inc., Patty Shirley from the PCHRA and JoAnn di Filippo of SAHRA.

II. Review of Commissioner Terms

Tom Moulton, County liaison to the PCFHRC, confirmed that all Commissioners remain full voting Commissioners until such time the Supervisor of the District they represent re-appoints them. Each Commissioner can serve two consecutive two-year terms. Even though Geronimo Ramirez and John Goodman's terms have expired, until they are re-appointed or replaced, they remain voting members of the commission. Both Supervisors are aware of the expired terms.

III. Election of Chair and Vice-Chair of Commission

An election of the new officers was held with Tom Moulton presiding. Forrest Metz was elected Chair. After two election cycles, a Vice-Chair was not elected due to a tie. The Commissioners decided to give the election of the Vice-Chair another try at the next meeting.

Following the election Chair Metz began to run the Commission meeting.

IV. Overview of the 2014 Racing Season by PCHRA

Patty Shirley, Vice-President of the PCHRA, gave a report of the 2014 racing season. She reported the financials would be ready in September and as soon as they are finalized a copy would be submitted to Pima County for distribution to the Commissioner.

A brief overview of the season followed:

- Crowds were good; rain did cancel some racing days
- Not enough horses last year to fill every racing slot; however every racing day did take place. Number one challenge for Rillito racing to continue is to find more race horses.

V. Presentation of Upcoming Racing Season by Rillito Racing Inc.

Jaye Wells, President of Rillito Racing, Inc. gave an overview of the racing management team featuring the new racing manager, Mike Weiss and the upcoming racing season at Rillito Racetrack. Mr. Wells indicated that the organization has applied for the proper racing permits from the Arizona Department of Racing (ADOR) with all administrative paperwork turned into ADOR's office. The permit applications are currently undergoing the customary background checks on all of the Rillito Racing principle management team. Additionally several grants had been received to ensure enough capital dollars to open the racing season as well as marketing the race meet.

Racing days requested by Rillito Racing begins on February 7 and ends on April 12 for a total of 20 live race days. The schedule will include 3 Friday racing days.

Jaye and Walter shared some of the Rillito improvements scheduled at the racetrack including the addition of 72 new horse stalls. The old block barns will remain intact on the west side and usable during the 2015 race meet. Following the 2015 season, the block barns are scheduled for demolition. An abandoned block barn will be demolished sometime in the early fall.

VI. Overview and Discussion of the Role of the Pima County Fair Horse Racing Commission and Possible Action to Amend the Resolution 1987 - 224

Tom Moulton reviewed resolution 1987-224 with the Commission and recommended that the Commissioners review the document for possible changes and/or additions to the resolution. Any recommended changes will be sent to the Board of Supervisors for possible review and adoption.

Commissioner Metz announced that he liked to get back to meeting monthly again in order to support horseracing in Pima County and give Rillito Racing the advice and support as needed. He asked all of the Commissioners to review and bring any proposed changes to the next meeting for consideration by the full Commission.

VII. Discussion and possible action on the State of Arizona Alcohol License of Rillito Racetrack

Patty Shirley gave an overview of the current status of the Liquor License with the State of Arizona. Pat White on behalf of the PCFHRC filed a renewal application with the State Liquor Department two weeks ago with Commissioner Matthews listed. It normally takes about 4-8 weeks for all of the background checks to be performed.

Commission Matthews indicated that he did not want his name on the application. Since it has already been filed, to take Matthews off the application could delay the process for another 4 – 8 weeks. Once the application is approved, Commission Matthews can be taken off the list and Chair Metz could be added.

A discussion took place about any liability that may exist to the Commissions. The Commission entertained a motion from an idea presented by Jaye Wells, for the Rillito Foundation to buy the liquor license once it is issued. A motion was presented by Commissioner Ramirez and seconded by Commissioner Bazurto to “Sell the Liquor License to Rillito Foundation for \$1.00 and at the end of the initial term of Rillito Racing sell back the License to the PCFHRC.” A friendly amendment was offered by Chair Metz and accepted to read: “Sell the Liquor License to Rillito Foundation for \$1.00 and at the end of the initial term of Rillito Racing sell back the License to the PCFHRC **subject to Pima County Government concurring.**”

VIII. Call to the Public

Several folks talked and thanked the PCHRA for their past efforts in keeping racing alive and thanked Pima County for working with Jaye to ensure a racing season for 2015. Jaye asked for support from the PCHRA for the upcoming racing season.

Commission Metz thanked all for attending and the meeting was adjourned at 5:10 pm.

Pima County Horsemen's Association, Inc.
(a not-for-profit organization)
FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT
Year ended June 30, 2012

CONTENTS

	PAGE
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT	1
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5



Don Radakovich, CPA
Thomas K. Furrier, CPA
Tariq A. Khan, CPA
Phillip C. Dalrymple, CPA
Rodolfo C. Paredes, CPA
Charles L. Charvoz, CPA

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Pima County Horsemen's Association, Inc.
Tucson, Arizona

We have compiled the accompanying statement of financial position of Pima County Horsemen's Association, Inc. (a not-for-profit organization) (the "Association") as of June 30, 2012, and the related statement of activities and change in net assets and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

R & A CPAs
A Professional Corporation

Tucson, Arizona
June 5, 2014

520.881.4900
520.881.1475 Fax
4542 E. Camp Lowell Drive
Suite 100
Tucson, Arizona 85712

www.RandAcpas.com

Pima County Horsemen's Association, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(See Independent Accountants' Compilation Report)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 67,682
Pari-mutuel receivables	<u>21,179</u>
<i>Total current assets</i>	<u>88,861</u>
LONG-TERM ASSETS:	
Equipment	40,500
Less: accumulated depreciation	<u>(19,369)</u>
<i>Total long-term assets</i>	<u>21,131</u>
TOTAL ASSETS	<u><u>\$ 109,992</u></u>

LIABILITIES AND NET ASSETS

NET ASSETS:	
Unrestricted	<u>\$ 109,992</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 109,992</u></u>

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

Pima County Horsemen's Association, Inc.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year ended June 30, 2012
(See Independent Accountants' Compilation Report)

REVENUES AND SUPPORT:	
Pari-mutuel - live track	\$ 337,195
Concessions	331,528
Pari-mutuel - simulcast	221,004
Admissions	144,377
Entry fees	105,500
Box seats	51,983
Program sales and advertising	46,131
Other income	<u>20,996</u>
<i>Total revenues and support</i>	<u>1,258,714</u>
 EXPENSES:	
Salaries and employee-related expenses	496,010
Purses	343,074
Concessions	119,027
Equipment rental and maintenance	58,887
Facility maintenance supplies	42,513
Facility repair and maintenance	34,114
Programs	28,633
Insurance	26,884
Utilities	25,579
Photography	24,000
General and administrative	20,226
Facility rent - Pima County	18,700
Ambula	15,260
Advertising	10,831
Licenses and fees	9,893
Armored car service	7,875
Depreciation	<u>3,571</u>
<i>Total expenses</i>	<u>1,285,077</u>
<i>Decrease in net assets from operations</i>	<u>(26,363)</u>
 OTHER EXPENSES:	
Interest expense	<u>196</u>
<i>DECREASE IN NET ASSETS</i>	<u><u>\$ (26,559)</u></u>
Unrestricted net assets, beginning of year	136,551
Decrease in net assets	<u>(26,559)</u>
Unrestricted net assets, end of year	<u><u>\$ 109,992</u></u>

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

Pima County Horsemen's Association, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2012
(See Independent Accountants' Compilation Report)

Cash flows from operating activities:	
Decrease in net assets	\$ (26,559)
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	3,571
Effects of changes in operating assets and liabilities:	
Pari-mutuel receivables	(2,163)
Accounts payable	<u>(2,926)</u>
<i>Net cash used in operating activities</i>	<u>(28,077)</u>
Cash flows from financing activities:	
Borrowings from line of credit	20,000
Payments on line of credit	<u>(20,000)</u>
<i>Net cash used in financing activities</i>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(28,077)</u>
Cash and cash equivalents at beginning of year	95,759
Cash and cash equivalents at end of year	<u>\$ 67,682</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 196</u>

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

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE A – NATURE OF OPERATIONS

Nature of Operation

Pima County Horsemen's Association, Inc. (the "Association") was formed in 1988 to operate the county fair horse racing and related activities at the Rillito Race Track (the "Track") in Tucson, Arizona. The Association derives its primary funding through operating a county fair horse race meet during January through February. The Association offers live horse racing and pari-mutuel wagering as authorized under its permit granted by the Arizona Racing Commission (the "Commission"). The Association has contracts/agreements entitling them to a percentage of off-track-betting revenue generated by off-track-betting simulcasts within Pima County of TP Racing, LLLP ("Turf Paradise").

The Association is operated by its members and is represented by a board of directors, which consists of two elected members. The Association has an agreement with the Pima County Fair Horse Racing Commission to conduct the County fair race meets on behalf of the Commission through January 2015. As further explained in Note G, Pima County elected to terminate the Association's lease of Rillito Park effective June 1, 2014.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that the Association follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the notes are to the FASB Accounting Standards Codification ("ASC").

The Association's financial statements have been prepared in accordance with FASB ASC 958, Not-for-Profit Entities. Under this authoritative guidance, the Association is required to provide financial statements which are prepared to focus on the Association as a whole and to present balances and transactions according to existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted* – Net assets that represent resources restricted by the donor with the restriction being either time or purpose oriented.
- *Permanently Restricted* – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Association. The donors of these assets permit the Association to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as restriction releases between the applicable classes of net assets.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Presentation *(continued)*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

The Association reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Such contributions are recorded at their estimated fair value at the date of the gift.

Use of Estimates

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 disclosures 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

The Association considers all liquid instruments purchased with a purchased maturity of three months or less to be cash equivalents. The Association places its cash and cash equivalents with various credit institutions. At times, such investments may be in excess of the FDIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Pari-mutuel Receivables

Pari-mutuel receivables consist of uncollateralized amounts that are due from pari-mutuel simulcasts. The Association uses the allowance method for recording bad debt based on a combination of historical collections and known conditions of unpaid amounts. Accounts receivable are written off when management considers them to be uncollectible. Pari-mutuel receivable balance as of June 30, 2012 totaled \$21,179. There was no allowance for doubtful accounts as of June 30, 2012.

Equipment

Equipment is stated at cost except for donated assets, which are recorded at fair value at the date of gift. Depreciation is calculated using the straight-line method over their estimated useful lives of five or seven years.

Maintenance, repairs and minor renewals are expensed as incurred. Expenditures for additions and improvements are capitalized. When property and equipment are disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

The Association is required by Pima County to make various improvements or conduct various maintenance and repair activities to the facilities at the Track in exchange for having access to use the Track. Costs to make the required improvements or repairs are expensed as incurred since the Association does not retain title to the improvements and their contract to lease the facilities has been terminated.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equipment *(continued)*

In accordance with FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Association periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Based on management's assessment, there was no impairment at June 30, 2012.

Donated Goods, Services, and Facilities

Donated goods are valued at their fair value. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- The services require specialized skills and the services be provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Many individuals, including primarily the board of directors, volunteer their time to perform a variety of tasks that assist the Association. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Income Taxes

As an exempt organization, under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201.4 of the Arizona Revised Statutes the Association is exempt from federal and state income taxes and, accordingly, no provision for income taxes has been made.

Accounting principles generally accepted in the United States of America clarify the accounting for uncertainty in income taxes by creating a framework to recognize, measure, present, and disclose in financial statements uncertain tax positions that have been taken or expect to be taken in a tax return. The Association's management believes there is no material possible existence of uncertain tax positions for which it is reasonably possible that reported total amounts could significantly differ from amounts that maybe determined upon examination by taxing authorities. The Association is no longer subject to federal and state tax examinations by taxing authorities for years before 2009, unless specific conditions are met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended June 30, 2012 totaled \$10,831.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE C – RACING OPERATIONS

The Association conducts a live meet that starts in January and runs through the end of February of each year in accordance with ARS §5-107.

Percentage of Handle Received as Commissions

Arizona fixes the maximum percentage of pari-mutuel commissions for on-track, simulcast and within the state off-track racing. The Association does not seek the maximum permitted commissions. The Association takes out the following track and horsemen's share:

	<u>One-Horse Pool</u>	<u>Two-Horse Pool</u>	<u>Three or More Horse Pool</u>
In-state handle	21%	22%	25%

Unclaimed Winnings

The Association receives or accumulates unclaimed pari-mutuel winnings. One year after the end of the race meet, the Association becomes legally entitled to the unclaimed pari-mutuel winnings from the previous season. Unclaimed pari-mutuel winnings are exempt from the provisions of the Revised Arizona Unclaimed Property Act (ARS 5-111). As of the year ended June 30, 2012, there was approximately \$16,087 in unclaimed pari-mutuel winnings. Since the Association ceases operations at the end of each season and given the history of almost no post season requests for payment on unclaimed pari-mutuel winnings the Association's policy is to recognize the unclaimed pari-mutuel winnings amount as additional pari-mutuel revenues for the season. Subsequent pari-mutuel winnings claims are recorded against subsequent period revenue, if any.

Competition – Proliferation of Alternative Gaming

The Association's primary non-racing competition is from local Native American casinos with Las Vegas-style gaming. All 21 tribes in Arizona are either already involved in gaming or in the off-track planning stages. Currently, there are 22 operating casinos in Arizona.

Along with casino gaming, the Association also competes with a state-run lottery, year-round greyhound pari-mutuel racing and horse racing simulcasts, as well as internet gambling.

NOTE D – PARI-MUTUEL REVENUE - SIMULCAST

The Association had an agreement expiring May 2012 with Turf Paradise to receive a commission fee of 2% of the net amount of the wagers accepted (gross wagers less refunds and cancellations) and received in Pima County at the Off-Track-Betting sites ("OTBs"). Total simulcast commissions for the year ended June 30, 2012 from Turf Paradise amounted to \$221,004.

Subsequent to year end the Association entered into a new one year agreements expiring May 2013 and May 2014, respectively with Turf Paradise to receive simulcast commissions.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE E – LINE OF CREDIT

Effective January 25, 2006, the Association executed a \$60,000 line of credit agreement with a finance institution. The agreement is a revolving line with no stated maturity date. Interest is due and payable monthly at prime plus 2.25% (prime at June 30, 2012 was 3.25%). The line of credit was paid off during the year and the outstanding balance at June 30, 2012 was \$0.

NOTE F – OPERATING LEASES

The Association has an agreement with United Tote Company that states that United Tote Company will provide totalisator equipment and services to the Association in connection with its operation of the Racetrack. United Tote Company totalisator equipment and services expense was \$35,680 for the year ended June 30, 2012. Future minimum lease payments per racing day with minimum 6 racing days under this operating lease are as follows:

Years ending <u>June 30,</u>	
2013	\$ 13,800
2014	<u>14,220</u>
<i>Total</i>	<u>\$ 28,020</u>

The Association has an operating lease for its horseracing with Pima County Fair Horse Racing Commission (the "County"). Rental expense for the lease was \$18,700 for the year ended June 30, 2012. The rental agreement will automatically renew each year unless County or the Association gives notice of non-renewal on or before June 1 of each calendar year. The annual fee for future lease payments is based upon eight total racing days during each racing season, and the annual fee will be adjusted based on the actual racing day during each racing season. Future minimum lease payments due under the subsequently renewed operating lease are as follows:

Years ending <u>June 30,</u>	
2013	\$ 11,500
2014	<u>14,000</u>
<i>Total</i>	<u>\$ 25,500</u>

NOTE G – CONTINGENCIES

The operations of the Association are dependent on its ability to obtain the racing permit from the Arizona Department of Racing. The Association's permit expired on December 31, 2013, but subsequently the Arizona Department of Racing extended the term of the permit through December 31, 2014.

The operations of the Association are also dependent upon the ability to lease Rillito Park from Pima County. In May 2014 Pima County decided not to extend the lease of Rillito Park to the Association beyond June 2014. As a result, the Association anticipates ceasing their racing operations by June 1, 2014.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2012

(See Independent Accountants' Compilation Report)

NOTE I – SUBSEQUENT EVENTS

The preparation of financial statements to conform with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) were evaluated when determining whether adjustment or disclosure in the financial statements is required. The Association evaluated subsequent events through June 5, 2014, which represents the date the accompanying financial statements were available to be issued.

Pima County Horsemen's Association, Inc.
(a not-for-profit organization)
FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS'
COMPILATION REPORT
Year ended June 30, 2013

CONTENTS

	PAGE
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT	1
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5



Don Radakovich, CPA
Thomas K. Furrer, CPA
Tariq A. Khan, CPA
Phillip C. Dalrymple, CPA
Rodolfo C. Paredes, CPA
Charles L. Charvoz, CPA

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Pima County Horsemen's Association, Inc.
Tucson, Arizona

We have compiled the accompanying statement of financial position of Pima County Horsemen's Association, Inc. (a not-for-profit organization) (the "Association") as of June 30, 2013, and the related statement of activities and change in net assets and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

R & A CPAs
A Professional Corporation

Tucson, Arizona
June 19, 2014

520.881.4900
520.881.1475 Fax
4542 E. Camp Lowell Drive
Suite 100
Tucson, Arizona 85712

www.RandAcpas.com

Pima County Horsemen's Association, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2013
(See Independent Accountants' Compilation Report)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 7,667
Pari-mutuel receivables	<u>20,291</u>
<i>Total current assets</i>	<u>27,958</u>
LONG-TERM ASSETS:	
Equipment	40,500
Less: accumulated depreciation	<u>(22,940)</u>
<i>Total long-term assets</i>	<u>17,560</u>
TOTAL ASSETS	<u><u>\$ 45,518</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Line of credit	\$ 56,713
Due to officer	<u>55,000</u>
<i>Total current liabilities</i>	<u>111,713</u>
TOTAL LIABILITIES	<u>111,713</u>
NET ASSETS:	
Unrestricted	<u>(66,195)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 45,518</u></u>

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

Pima County Horsemen's Association, Inc.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year ended June 30, 2013
(See Independent Accountants' Compilation Report)

REVENUES AND SUPPORT:	
Concessions	\$ 284,817
Pari-mutuel - live track	269,084
Pari-mutuel - simulcast	210,250
Admissions	117,957
Entry fees	76,300
Box seats	49,467
Program sales and advertising	44,355
Other income	<u>31,904</u>
<i>Total revenues and support</i>	<u>1,084,134</u>
 EXPENSES:	
Salaries and employee-related expenses	460,141
Purses	324,444
Concessions	106,852
Equipment rental and maintenance	63,654
Other expenses	55,330
Insurance	40,934
Programs	37,390
Facility maintenance supplies	34,152
Utilities	25,845
Photography	22,500
Facility rent - Pima County	21,563
Ambulance service	15,300
Advertising	13,904
General and administrative	13,144
Armored car service	7,465
Licenses and fees	6,902
Facility repair and renovation	5,838
Depreciation	<u>3,571</u>
<i>Total expenses</i>	<u>1,258,929</u>
<i>Decrease in net assets from operations</i>	<u>(174,795)</u>
 OTHER EXPENSES:	
Interest expense	<u>1,392</u>
DECREASE IN NET ASSETS	<u>\$ (176,187)</u>
Unrestricted net assets, beginning of year	\$ 109,992
Decrease in net assets	<u>(176,187)</u>
Unrestricted net assets, end of year	<u>\$ (66,195)</u>

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

Pima County Horsemen's Association, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2013
(See Independent Accountants' Compilation Report)

Cash flows from operating activities:	
Decrease in net assets	\$ (176,187)
Adjustment to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	3,571
Effects of changes in operating assets and liabilities:	
Pari-mutuel receivables	<u>888</u>
<i>Net cash used in operating activities</i>	<u>(171,728)</u>
Cash flows from financing activities:	
Proceeds from line of credit	57,750
Repayments on line of credit	(1,037)
Proceeds from due to officer	70,000
Repayments on due to officer	<u>(15,000)</u>
<i>Net cash provided by financing activities</i>	<u>111,713</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	<u>(60,015)</u>
Cash and cash equivalents at beginning of year	67,682
Cash and cash equivalents at end of year	<u>\$ 7,667</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 1,392</u>

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

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE A – NATURE OF OPERATIONS

Nature of Operation

Pima County Horsemen's Association, Inc. (the "Association") was formed in 1988 to operate the county fair horse racing and related activities at the Rillito Race Track (the "Track") in Tucson, Arizona. The Association derives its primary funding through operating county fair and commercial horse race meets during January through February. The Association offers live horse racing and pari-mutuel wagering as authorized under its permit granted by the Arizona Racing Commission (the "Commission"). The Association has contracts/agreements entitling them to a percentage of off-track-betting revenue generated by off-track-betting simulcasts within Pima County of TP Racing, LLLP ("Turf Paradise").

The Association is operated by its members and is represented by a board of directors, which consists of two elected members. The Association has an agreement with the Pima County Fair Horse Racing Commission to conduct the county fair race meets on behalf of the Commission through January 2015.

As further explained in Note H, the Association has also a permit from Arizona Racing Commission to hold commercial race meets through December 2014.

As further explained in Note H, Pima County elected to terminate the Association's lease of Rillito Park effective June 1, 2014.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that the Association follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the notes are to the FASB Accounting Standards Codification ("ASC").

The Association's financial statements have been prepared in accordance with FASB ASC 958, Not-for-Profit Entities. Under this authoritative guidance, the Association is required to provide financial statements which are prepared to focus on the Association as a whole and to present balances and transactions according to existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted* – Net assets that represent resources restricted by the donor with the restriction being either time or purpose oriented.
- *Permanently Restricted* – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Association. The donors of these assets permit the Association to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Presentation *(continued)*

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as restriction releases between the applicable classes of net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

The Association reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Such contributions are recorded at their estimated fair value at the date of the gift.

Use of Estimates

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 disclosures 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

The Association considers all liquid instruments purchased with a purchased maturity of three months or less to be cash equivalents. The Association places its cash and cash equivalents with various credit institutions. At times, such investments may be in excess of the FDIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Pari-mutuel Receivables

Pari-mutuel receivables consist of uncollateralized amounts that are due from pari-mutuel simulcasts. The Association uses the allowance method for recording bad debt based on a combination of historical collections and known conditions of unpaid amounts. Accounts receivable are written off when management considers them to be uncollectible. Pari-mutuel receivable balance as of June 30, 2013 totaled \$20,291. There was no allowance for doubtful accounts as of June 30, 2013.

Equipment

Equipment is stated at cost except for donated assets, which are recorded at fair value at the date of gift. Depreciation is calculated using the straight-line method over their estimated useful lives of five or seven years.

Maintenance, repairs and minor renewals are expensed as incurred. Expenditures for additions and improvements are capitalized. When property and equipment are disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equipment *(continued)*

The Association is required by Pima County to make various improvements or conduct various maintenance and repair activities to the facilities at the Track in exchange for having access to use the Track. Costs to make the required improvements or repairs are expensed as incurred since the Association does not retain title to the improvements and their contract to lease the facilities has been terminated.

In accordance with FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Association periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Based on management's assessment, there was no impairment at June 30, 2013.

Donated Goods, Services, and Facilities

Donated goods are valued at their fair value. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- The services require specialized skills and the services be provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Many individuals, including primarily the board of directors, volunteer their time to perform a variety of tasks that assist the Association. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Income Taxes

As an exempt organization, under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201.4 of the Arizona Revised Statutes the Association is exempt from federal and state income taxes and, accordingly, no provision for income taxes has been made.

Accounting principles generally accepted in the United States of America clarify the accounting for uncertainty in income taxes by creating a framework to recognize, measure, present, and disclose in financial statements uncertain tax positions that have been taken or expect to be taken in a tax return. The Association's management believes there is no material possible existence of uncertain tax positions for which it is reasonably possible that reported total amounts could significantly differ from amounts that maybe determined upon examination by taxing authorities. The Association is no longer subject to federal and state tax examinations by taxing authorities for years before 2010, unless specific conditions are met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended June 30, 2013 totaled \$13,904.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE C – RACING OPERATIONS

The Association conducts a live meet that starts in January and runs through the end of February of each year in accordance with ARS §5-107.

Percentage of Handle Received as Commissions

Arizona fixes the maximum percentage of pari-mutuel commissions for on-track, simulcast and within the state off-track racing. The Association does not seek the maximum permitted commissions. The Association takes out the following track and horsemen's share:

	<u>One-Horse Pool</u>	<u>Two-Horse Pool</u>	<u>Three or More Horse Pool</u>
In-state handle	21%	22%	25%

Unclaimed Winnings

The Association receives or accumulates unclaimed pari-mutuel winnings. One year after the end of the race meet, the Association becomes legally entitled to the unclaimed pari-mutuel winnings from the previous season. Unclaimed pari-mutuel winnings are exempt from the provisions of the Revised Arizona Unclaimed Property Act (ARS 5-111). As of the year ended June 30, 2013, there was approximately \$13,550 in unclaimed pari-mutuel winnings. Since the Association ceases operations at the end of each season and given the history of almost no post season requests for payment on unclaimed pari-mutuel winnings the Association's policy is to recognize the unclaimed pari-mutuel winnings amount as additional pari-mutuel revenues for the season. Subsequent pari-mutuel winnings claims are recorded against subsequent period revenue, if any.

Competition – Proliferation of Alternative Gaming

The Association's primary non-racing competition is from local Native American casinos with Las Vegas-style gaming. All 21 tribes in Arizona are either already involved in gaming or in the off-track planning stages. Currently, there are 22 operating casinos in Arizona.

Along with casino gaming, the Association also competes with a state-run lottery, year-round greyhound pari-mutuel racing and horse racing simulcasts, as well as internet gambling.

NOTE D – PARI-MUTUEL REVENUE - SIMULCAST

The Association has an agreement expiring May 2014 with Turf Paradise to receive a commission fee of 2% of the net amount of the wagers accepted (gross wagers less refunds and cancellations) and received in Pima County at the Off-Track-Betting sites ("OTBs"). Total simulcast commissions for the year ended June 30, 2013 from Turf Paradise amounted to \$210,250.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE E – LINE OF CREDIT

Effective January 25, 2006, the Association executed a \$60,000 line of credit agreement with a finance institution. The agreement is a revolving line with no stated maturity date. Interest is due and payable monthly at prime plus 2.25% (prime at June 30, 2013 was 3.25%). The outstanding balance at June 30, 2013 was \$56,713.

NOTE F – NOTE PAYABLE

In January 2013 The Association entered into verbal agreement with a member of the Association to borrow \$70,000. The note is non-interest bearing. The Associations pays off the note as the cash becomes available.

NOTE G – OPERATING LEASES

The Association has an agreement with United Tote Company that states that United Tote Company will provide totalisator equipment and services to the Association in connection with its operation of the Racetrack. United Tote Company totalisator equipment and services expense was \$34,525 for the year ended June 30, 2013. Future minimum lease payments per racing day with minimum 6 racing days under this operating lease are as follows:

Years ending <u>June 30,</u>	
2014	\$ 14,220
<i>Total</i>	<u>\$ 14,220</u>

The Association has an operating lease for its horseracing with Pima County Fair Horse Racing Commission (the "County"). Rental expense for the lease was \$21,563 for the year ended June 30, 2013. The rental agreement will automatically renew each year unless County or the Association gives notice of non-renewal on or before June 1 of each calendar year. The annual fee for future lease payments is based upon eight total racing days during each racing season, and the annual fee will be adjusted based on the actual racing day during each racing season. Future minimum lease payments due under the subsequently renewed operating lease are as follows:

Years ending <u>June 30,</u>	
2014	\$ 14,000
<i>Total</i>	<u>\$ 14,000</u>

NOTE H – CONTINGENCIES

The operations of the Association are dependent on its ability to obtain the racing permit from the Arizona Department of Racing. The Association's permit expires on December 31, 2014.

The operations of the Association are also dependent upon ability to lease Rillito Park from Pima County. In May 2014, Pima County decided not to extend the lease of Rillito Park to the Association beyond June 2014. As a result, the Association ceased their fair meet racing operations effective June 1, 2014.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2013

(See Independent Accountants' Compilation Report)

NOTE I – SUBSEQUENT EVENTS

The preparation of financial statements to conform with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) were evaluated when determining whether adjustment or disclosure in the financial statements is required. The Association evaluated subsequent events through June 19, 2014, which represents the date the accompanying financial statements were available to be issued.

Pima County Horsemen's Association, Inc.
(a not-for-profit organization)
**FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS'
COMPILATION REPORT**
Year ended June 30, 2014

CONTENTS

	PAGE
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT	1
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5



Don Radakovich, CPA
Thomas K. Furrier, CPA
Tariq A. Khan, CPA
Phillip C. Dalrymple, CPA
Rodolfo C. Paredes, CPA
Charles L. Charvoz, CPA

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Pima County Horsemen's Association, Inc.
Tucson, Arizona

We have compiled the accompanying statement of financial position of Pima County Horsemen's Association, Inc. (a not-for-profit organization) (the "Association") as of June 30, 2014, and the related statement of activities and change in net assets and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

R & A CPAs

A Professional Corporation

Tucson, Arizona
September 12, 2014

520.881.4900
520.881.1475 Fax
4542 E. Camp Lowell Drive
Suite 100
Tucson, Arizona 85712

www.RandAcpas.com

Pima County Horsemen's Association, Inc.
STATEMENT OF FINANCIAL POSITION
 June 30, 2014
 (See Independent Accountants' Compilation Report)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 15,536
Pari-mutuel receivables	<u>21,362</u>
<i>Total current assets</i>	<u>36,898</u>
LONG-TERM ASSETS:	
Equipment	40,500
Less: accumulated depreciation	<u>(26,512)</u>
<i>Total long-term assets</i>	<u>13,988</u>
TOTAL ASSETS	<u><u>\$ 50,886</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 7,349
Interest payable	237
Line of credit	50,716
Due to officer	<u>70,000</u>
<i>Total current liabilities</i>	<u>128,302</u>
TOTAL LIABILITIES	<u>128,302</u>
NET ASSETS:	
Unrestricted	<u>(77,416)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 50,886</u></u>

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

Pima County Horsemen's Association, Inc.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year ended June 30, 2014

(See Independent Accountants' Compilation Report)

REVENUES AND SUPPORT:

Concessions	\$ 299,014
Pari-mutuel - live track	262,162
Pari-mutuel - simulcast	225,650
Admissions	113,922
Box seats	58,232
Other income	45,732
Program sales and advertising	37,501
Entry fees	<u>36,300</u>
<i>Total revenues and support</i>	<u>1,078,513</u>

EXPENSES:

Salaries and employee-related expenses	407,965
Purses	252,000
Concessions	106,798
Equipment rental and maintenance	60,358
Insurance	41,143
Programs	34,481
Other expenses	26,670
Facility maintenance supplies	24,737
Facility rent - Pima County	24,500
Photography	21,000
Utilities	17,327
Advertising	16,209
General and administrative	14,849
Licenses and fees	14,506
Ambulance service	13,575
Armored car service	7,116
Depreciation	<u>3,572</u>
<i>Total expenses</i>	<u>1,086,806</u>
<i>Decrease in net assets from operations</i>	<u>(8,293)</u>

OTHER EXPENSES:

Interest expense	<u>2,928</u>
<i>DECREASE IN NET ASSETS</i>	<u>\$ (11,221)</u>

Unrestricted net assets, beginning of year	\$ (66,195)
Decrease in net assets	<u>(11,221)</u>
Unrestricted net assets, end of year	<u>\$ (77,416)</u>

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

Pima County Horsemen's Association, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2014
(See Independent Accountants' Compilation Report)

Cash flows from operating activities:	
Decrease in net assets	\$ (11,221)
Adjustment to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	3,572
Effects of changes in operating assets and liabilities:	
Pari-mutuel receivables	(1,071)
Accounts payable	7,349
Interest payable	<u>237</u>
<i>Net cash used in operating activities</i>	<u>(1,134)</u>
Cash flows from financing activities:	
Proceeds from line of credit	10,753
Repayments on line of credit	(16,750)
Proceeds from due to officer	100,000
Repayments on due to officer	<u>(85,000)</u>
<i>Net cash provided by financing activities</i>	<u>9,003</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>7,869</u>
Cash and cash equivalents at beginning of year	7,667
Cash and cash equivalents at end of year	<u>\$ 15,536</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 2,691</u>

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

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(See Independent Accountants' Compilation Report)

NOTE A – NATURE OF OPERATIONS

Nature of Operation

Pima County Horsemen's Association, Inc. (the "Association") was formed in 1988 to operate the county fair horse racing and related activities at the Rillito Race Track (the "Track") in Tucson, Arizona. The Association derives its primary funding through operating county fair and commercial horse race meets during January through February. The Association offers live horse racing and pari-mutuel wagering as authorized under its permit granted by the Arizona Racing Commission (the "Commission"). The Association has contracts/agreements entitling them to a percentage of off-track-betting revenue generated by off-track-betting simulcasts within Pima County of TP Racing, LLLP ("Turf Paradise").

The Association is operated by its members and is represented by a board of directors, which consists of two elected members. The Association has an agreement with the Pima County Fair Horse Racing Commission to conduct the county fair race meets on behalf of the Commission through January 2015.

As further explained in Note H, the Association has also a permit from Arizona Racing Commission to hold commercial race meets through December 2014.

As further explained in Note H, Pima County elected to terminate the Association's lease of Rillito Park effective June 1, 2014.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that the Association follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the notes are to the FASB Accounting Standards Codification ("ASC").

The Association's financial statements have been prepared in accordance with FASB ASC 958, Not-for-Profit Entities. Under this authoritative guidance, the Association is required to provide financial statements which are prepared to focus on the Association as a whole and to present balances and transactions according to existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted* – Net assets that represent resources restricted by the donor with the restriction being either time or purpose oriented.
- *Permanently Restricted* – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Association. The donors of these assets permit the Association to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2014

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Presentation *(continued)*

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as restriction releases between the applicable classes of net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

The Association reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Such contributions are recorded at their estimated fair value at the date of the gift.

Use of Estimates

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 disclosures 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

The Association considers all liquid instruments purchased with a purchased maturity of three months or less to be cash equivalents. The Association places its cash and cash equivalents with various credit institutions. At times, such investments may be in excess of the FDIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Pari-mutuel Receivables

Pari-mutuel receivables consist of uncollateralized amounts that are due from pari-mutuel simulcasts. The Association uses the allowance method for recording bad debt based on a combination of historical collections and known conditions of unpaid amounts. Accounts receivable are written off when management considers them to be uncollectible. Pari-mutuel receivable balance as of June 30, 2014 totaled \$21,362, which was collected subsequent to year end. There was no allowance for doubtful accounts as of June 30, 2014.

Equipment

Equipment is stated at cost except for donated assets, which are recorded at fair value at the date of gift. Depreciation is calculated using the straight-line method over their estimated useful lives of five or seven years.

Maintenance, repairs and minor renewals are expensed as incurred. Expenditures for additions and improvements are capitalized. When property and equipment are disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2014

(See Independent Accountants' Compilation Report)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equipment *(continued)*

The Association is required by Pima County to make various improvements or conduct various maintenance and repair activities to the facilities at the Track in exchange for having access to use the Track. Costs to make the required improvements or repairs are expensed as incurred since the Association does not retain title to the improvements and their contract to lease the facilities has been terminated.

In accordance with FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Association periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Based on management's assessment, there was no impairment at June 30, 2014.

Donated Goods, Services, and Facilities

Donated goods are valued at their fair value. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- The services require specialized skills and the services be provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Many individuals, including primarily the board of directors, volunteer their time to perform a variety of tasks that assist the Association. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Income Taxes

As an exempt organization, under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201.4 of the Arizona Revised Statutes the Association is exempt from federal and state income taxes and, accordingly, no provision for income taxes has been made.

Accounting principles generally accepted in the United States of America clarify the accounting for uncertainty in income taxes by creating a framework to recognize, measure, present, and disclose in financial statements uncertain tax positions that have been taken or expect to be taken in a tax return. The Association's management believes there is no material possible existence of uncertain tax positions for which it is reasonably possible that reported total amounts could significantly differ from amounts that maybe determined upon examination by taxing authorities. The Association is no longer subject to federal and state tax examinations by taxing authorities for years before 2011, unless specific conditions are met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended June 30, 2014, totaled \$16,209.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2014

(See Independent Accountants' Compilation Report)

NOTE C – RACING OPERATIONS

The Association conducts a live meet that starts in January and runs through the end of February of each year in accordance with ARS §5-107.

Percentage of Handle Received as Commissions

Arizona fixes the maximum percentage of pari-mutuel commissions for on-track, simulcast and within the state off-track racing. The Association does not seek the maximum permitted commissions. The Association takes out the following track and horsemen's share:

	<u>One-Horse Pool</u>	<u>Two-Horse Pool</u>	<u>Three or More Horse Pool</u>
In-state handle	21%	22%	25%

Unclaimed Winnings

The Association receives or accumulates unclaimed pari-mutuel winnings. One year after the end of the race meet, the Association becomes legally entitled to the unclaimed pari-mutuel winnings from the previous season. Unclaimed pari-mutuel winnings are exempt from the provisions of the Revised Arizona Unclaimed Property Act (ARS 5-111). As of the year ended June 30, 2014, there was approximately \$13,078 in unclaimed pari-mutuel winnings. Since the Association ceases operations at the end of each season and given the history of almost no post season requests for payment on unclaimed pari-mutuel winnings the Association's policy is to recognize the unclaimed pari-mutuel winnings amount as additional pari-mutuel revenues for the season. Subsequent pari-mutuel winnings claims are recorded against subsequent period revenue, if any.

Competition – Proliferation of Alternative Gaming

The Association's primary non-racing competition is from local Native American casinos with Las Vegas-style gaming. All 21 tribes in Arizona are either already involved in gaming or in the off-track planning stages. Currently, there are 22 operating casinos in Arizona.

Along with casino gaming, the Association also competes with a state-run lottery, year-round greyhound pari-mutuel racing and horse racing simulcasts, as well as internet gambling.

NOTE D – PARI-MUTUEL REVENUE - SIMULCAST

The Association has an agreement expiring May 2015 with Turf Paradise to receive a commission fee of 2% of the net amount of the wagers accepted (gross wagers less refunds and cancellations) and received in Pima County at the Off-Track-Betting sites ("OTBs"). As further described in Note H, starting January 1, 2015, the commission fee will be received by a subsequent holder of the racing permit. Total simulcast commissions for the year ended June 30, 2014 from Turf Paradise amounted to \$225,650.

Pima County Horsemen's Association

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2014

(See Independent Accountants' Compilation Report)

NOTE E – LINE OF CREDIT

Effective January 25, 2006, the Association executed a \$60,000 line of credit agreement with a finance institution. The agreement is a revolving line with no stated maturity date. Interest is due and payable monthly at prime plus 2.25% (prime at June 30, 2014 was 3.25%). The outstanding balance at June 30, 2014 was \$50,716.

NOTE F – NOTE PAYABLE

In February 2014, the Association entered into verbal agreement with a member of the Association to borrow \$100,000. The note is non-interest bearing and is due upon demand. The outstanding balance as of June 30, 2014 is \$70,000.

NOTE G – OPERATING LEASES

The Association has an agreement with United Tote Company that states that United Tote Company will provide totalisator equipment and services to the Association in connection with its operation of the Racetrack. The agreement expires on December 31, 2014. United Tote Company totalisator equipment and services expense was \$33,180 for the year ended June 30, 2014.

The Association has an operating lease for its horseracing with Pima County Fair Horse Racing Commission (the "County"). Pima County elected to terminate the Association's lease of Rillito Park effective June 1, 2014. Rental expense for the lease was \$24,500 for the year ended June 30, 2014.

NOTE H – GOING CONCERN

The operations of the Association are dependent on its ability to obtain the racing permit from the Arizona Department of Racing. The Association's permit expires on December 31, 2014. The operations of the Association are also dependent upon ability to lease Rillito Park from Pima County.

The Association's management is uncertain as to whether the Association will be able to obtain the racing permit beyond December 31, 2014. In the event that the Association will not obtain the racing permit, management may choose to discontinue the Association's operation.

Starting January 1, 2015, the off-track-betting revenue will be received by the subsequent period permit holder.

In May 2014, Pima County decided not to extend the lease of Rillito Park to the Association beyond May 2014. As a result, the Association ceased their fair and commercial meet racing operations effective June 1, 2014.

NOTE I – SUBSEQUENT EVENTS

The preparation of financial statements to conform with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) were evaluated when determining whether adjustment or disclosure in the financial statements is required. The Association evaluated subsequent events through September 12, 2014, which represents the date the accompanying financial statements were available to be issued.