

ILLINOIS THOROUGHBRED BREEDERS
AND OWNERS FOUNDATION
AUDITORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Illinois Thoroughbred Breeders and Owners Foundation
Arlington Heights, Illinois

We have audited the accompanying financial statements of Illinois Thoroughbred Breeders and Owners Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Thoroughbred Breeders and Owners Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 9-11 are presented for purposes of additional analysis and is not a required part

of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lombard, Illinois
July 22, 2016

Catalano, Caboor & Co.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 159,985	\$ 159,115	\$ 319,100
Accounts receivable	20,395	233,598	253,993
Prepaid insurance	2,131	-	2,131
Prepaid expenses	2,456	-	2,456
	<hr/>	<hr/>	<hr/>
Total Current Assets	184,967	392,713	577,680
Property and Equipment:			
Equipment	37,292	-	37,292
Furniture and fixtures	1,712	-	1,712
Office trailers	58,147	-	58,147
Office structure	37,624	-	37,624
Total	134,775	-	134,775
Less: accumulated depreciation	(129,272)	-	(129,272)
	<hr/>	<hr/>	<hr/>
Net, Property and Equipment	5,503	-	5,503
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 190,470	\$ 392,713	\$ 583,183
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts payable, Breeders Awards	\$ -	\$ 342,179	\$ 342,179
Other liabilities	6,108	-	6,108
Reserve for live foal guarantee	6,050	-	6,050
Prepaid membership	5,350	-	5,350
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	17,508	342,179	359,687
Net Assets:			
Unrestricted Net Assets:			
Operating	167,459	-	167,459
Fixed assets	5,503	-	5,503
	<hr/>	<hr/>	<hr/>
Total Unrestricted Net Assets	172,962	-	172,962
Temporarily Restricted Net Assets	-	50,534	50,534
	<hr/>	<hr/>	<hr/>
Total Net Assets	172,962	50,534	223,496
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 190,470	\$ 392,713	\$ 583,183
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support:			
Membership dues	\$ 20,175	\$ -	\$ 20,175
Stallion season donations	32,502	-	32,502
Interest Income	177	163	340
Total Support	52,854	163	53,017
Revenue:			
Breeders' awards	95,182	-	95,182
Awards banquet	8,950	-	8,950
Nomination fees	-	31,600	31,600
Other	1,205	-	1,205
Total Revenue	105,337	31,600	136,937
Total Support and Revenue	158,191	31,763	189,954
Expenses:			
Management Program	24,194	-	24,194
	131,276	29,400	160,676
Total expenses	155,470	29,400	184,870
Change in Net Assets	2,721	2,363	5,084
Net Assets - Beginning of Year	170,241	48,171	218,412
Net Assets - End of the Year	\$ 172,962	\$ 50,534	\$ 223,496

The accompanying notes are an integral part of these statements.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows from Operating Activities:

Change in net assets:	
Adjustments to reconcile change in net assets to net cash used by operating activities:	\$ 5,084
Depreciation	3,197
Decrease in accounts receivable	29,763
(Increase) in prepaid insurance	(42)
(Increase) in prepaid expenses	(956)
(Decrease) in accounts payable	(39,380)
(Decrease) in other liabilities	(3,740)
(Decrease) in prepaid income	(8,250)
	<hr/>
Net cash used by operating activities	(14,324)
Net decrease in cash	(14,324)
Cash - Beginning of Year	<hr/>
	333,424
Cash - End of Year	<hr/>
	\$ 319,100

The accompanying notes are any integral part of these statements.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1. Summary of Significant Accounting Policies

Nature of Activities

The Illinois Thoroughbred Breeders and Owners Foundation (Foundation) was organized in Illinois in 1947 as a not-for-profit corporation to further the development of the Thoroughbred horse in the State of Illinois by collaboration with the Illinois Department of Agriculture, Illinois Legislature, the Illinois Racing Board, Illinois registered breeders and Illinois licensed owners; to collaborate with Illinois race tracks to better racing for Illinois owners and breeders; to promote the welfare of Illinois farm communities and cooperate with and assist other farm organizations in the fulfillment of their purposes; to promote and encourage research programs concerning the health, development and care of the horse; to promote and encourage educational programs regarding breeding, farm management and nutrition; to promote and encourage scholarships for students of veterinary medicine and to generally improve the conditions of work and the production of the horse at a race track, training track and a farm. The Foundation's support comes primarily from 1% of the winner's share of purses won by Illinois bred/foaled horses, membership dues, nomination fees from stake races and horse auctions. The Foundation has offices at two race tracks in Illinois: Hawthorne Race Course and Arlington Park (staffed only during racing season).

In November 2015, the Foundation entered into an agreement with Midwest Outdoors, Inc. to assume the publication of Illinois Racing News magazine for 2016. The agreement is a one-year licensing agreement where the Foundation provides direction, control and publication of the Illinois Racing News while Midwest Outdoors, Inc. supplies composition, circulation maintenance, printing, and handling and distribution of the magazine. All costs are the responsibility of the Foundation. Under the licensing agreement, revenue derived from advertising, subscriptions or content of each issue is the revenue of the Foundation. Midwest Outdoors, Inc. retains ownership of all trademarks, copyrights and other intellectual property related to Illinois Racing News magazine.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 1. – Summary of Significant Accounting Policies, continued

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. There are no permanent restrictions of net assets at year end.

Property and Equipment

Equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	5 – 7 years	\$37,292	\$33,726	\$3,566
Furniture	3 – 5 years	1,712	1,389	323
Office trailers	20 years	58,147	57,533	614
Office structure	10 – 20 years	<u>37,624</u>	<u>36,624</u>	<u>1,000</u>
		<u>\$134,775</u>	<u>\$129,272</u>	<u>\$5,503</u>

Depreciation expense for the year was \$3,197.

Income Taxes

The Foundation is an exempt organization for federal and Illinois income tax purposes under Section 501(c)(6) of the Internal Revenue Code.

Functional Expenses

Expenses are charges directly to program or management in general categories based on specific identification. Indirect expenses have not been allocated since any allocation would have little effect.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. The Foundation is required to maintain a separate bank account for Breeder Awards.

Accounts Receivable

Accounts receivable are stated at the amount of the Foundation expect to collect from outstanding balances. The unrestricted amount of \$20,395 represents the 1% fee the Foundation receives tracking breeders' awards and issuing payments. The temporarily restricted amount of \$233,598 represents the amount to be collected for Illinois breeders' awards from Hawthorne Race Course. All amounts were received and deposited in January 2016.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 2. Restrictions on Net Assets

The Foundation voted to create a bonus to be paid to the first colt and filly from the 2014 Stallion auction to win an Illinois race. The bonus amount is \$10,000 per horse for a total of \$20,000. The amount has been transferred to temporarily restricted assets. The bonus is expected to be paid out in 2017 or 2018. Temporarily restricted assets at the end of the year consist of the following:

Breeders' Awards, net	\$10,936
Stakes Purse's	19,598
Bonus from Stallion Auction	<u>20,000</u>
Total	<u>\$ 50,534</u>

Note 3. Revenue- Breeders Awards

The Illinois Racing Act of 1975 (Act) established Breeder's Awards for Illinois bred/foaled horses running at Illinois race tracks. The Act allocates 1% of the winner's share of purses won by Illinois bred/foaled horses to the organization representing thoroughbred breeders and owners whose representatives serve on the Illinois Thoroughbred Breeders Fund Advisory Board for verifying the amounts of breeders' awards earned, assuring their distribution in accordance with the Act, and servicing and promoting the Illinois thoroughbred horse racing industry. The Foundation provides this service. The amounts below show the revenue and direct expense verifying and distribution of the breeder awards. The expense does not include any salary allocation to verifying and paying the awards:

Total Breeders' Awards	\$ 95,182
Less: Breeders' Awards expense	<u>12,926</u>
Net	<u>\$ 82,256</u>

Note 4. Concentrations

The Foundation had cash deposits in a financial institution in excess of the amount insured by the Federal Depository Insurance Corporation (FDIC) at December 31, 2015. These balances fluctuate greatly during the year and can exceed the limit. This risk is managed by maintaining all deposits in high quality institutions.

Note 5. Guarantees

The Foundation holds an annual fundraising auction. The auction is for Stallion stud services. The owners of the Stallions donate the services to the Foundation. Some contracts are submitted with live foal guarantees. If the result does not produce a live foal, the purchaser can request a refund. At December 31, 2015 there was \$6,050 live foal guarantees. A reserve has been established in this amount. Once confirmation of a live foal is received, the related reserve will be transferred to income.

Note 6. Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Foundation's management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation incurred no penalties or interest expenses for the year ended December 31, 2015.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6. Uncertain Tax Positions, continued

The Foundation's federal tax return of an organization exempt from income tax (form 990) for 2015, 2014 and 2013 are subject to examination by the IRS, generally for three years after they were filed.

Note 7. Subsequent Events

Management has evaluated subsequent events through July 22, 2016, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional Expenses:			
Wages	\$ 30,600	\$ 5,400	\$ 36,000
Payroll taxes	2,972	524	3,496
Breeders' awards administration	12,926	-	12,926
Awards banquet costs	8,721	-	8,721
Accounting and tax services	-	750	750
Bank and credit card fees	1,156	-	1,156
Depreciation	-	3,197	3,197
Dues and subscriptions	1,471	-	1,471
Equipment maintenance	-	1,146	1,146
Futurity and debutante expenses	166	-	166
Illinois Breeders' futurity and debutante	29,400	-	29,400
Insurance	-	8,758	8,758
Legislative costs	376	-	376
Lobbying activity	39,500	-	39,500
Member costs	4,136	-	4,136
Miscellaneous	25	-	25
Office supplies	3,695	652	4,347
Office services	7,743	1,366	9,109
Postage	1,493	263	1,756
Publicity and promotion	3,168	-	3,168
Pedigree computer service	12	-	12
Stallion season costs	5,371	-	5,371
Telephone	3,811	673	4,484
Travel and Management	1,465	1,465	2,930
Website maintenance	2,469	-	2,469
Total Functional Expenses	<u>\$ 160,676</u>	<u>\$ 24,194</u>	<u>\$ 184,870</u>

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

SCHEDULE OF ILLINOIS BREEDERS' AWARDS RESERVE ACCOUNT

DECEMBER 31, 2015

Illinois Breeders' Awards Reserve Accounts Payable - Beginning	\$ 381,559
Revenue : (computed @ 11.5% of winnings):	
Hawthorne Race Course Spring 2015	226,247
Hawthorne Race Course Fall 2015	233,598
Fairmount Park	117,453
Arlington Park	<u>516,558</u>
Total Revenue	1,093,856
Sub-Total	1,475,415
Expenditures to Breeders' based on revenue above in accordance with Illinois General Assembly Legislation passed in August 1988	
Hawthorne Race Course - Fall 2014	255,909
Hawthorne Race Course - Spring 2015	223,071
Fairmount Park	114,064
Arlington Park	<u>540,192</u>
Total Expenditures	<u>1,133,236</u>
Illinois Breeders' Awards Reserve Accounts Payable - Ending	<u>\$ 342,179</u>

ILLINOIS THOROUGHBRED BREEDERS AND OWNERS FOUNDATION

SCHEDULE OF BOARD OF DIRECTORS

AS OF DECEMBER 31, 2015

Dan Arrigo (Treasurer)
5447 Warren
Morton Grove, IL 60053

John E. Smith
10409 Winn Road
Spring Grove, IL 60081

David Block
1608 Country Road
Philo, IL 61864

Joe Carper
65 Spring Creek Road
Barrington, IL 60010

Janet Hartwig (2nd Vice President)
11295 Pine Road
Somonauk, IL 60522

David Nobbe (1st Vice President)
2616 Helm Road
Carpentersville, IL 60110

Steven H. Lewis
1840 Skokie Blvd
Northbrook, IL 60620

Gail Radke (Secretary)
9600 West 175th
Olathe, IL 66062

Daniel Sullivan (President)
120 West 22nd Street
Oak Brook, IL 60523

Tom Swearingen
5N480 Dittman Road
Elgin, IL 60123

Thomas Fitch
365 Oak Knoll Road
Barrington, IL 60010

John Haran
8250 Offner Road
Peotone, IL 60010

Melissa Williams
24359 S. Deer Run Trail
Crete, IL 60417

Frank Kirby
2085 N. Hawthorne
Melrose Park, IL 60160