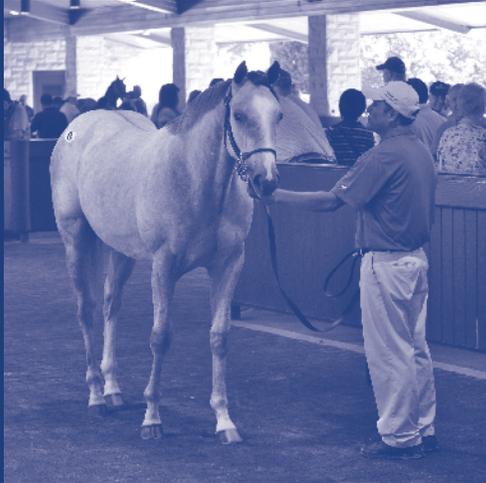
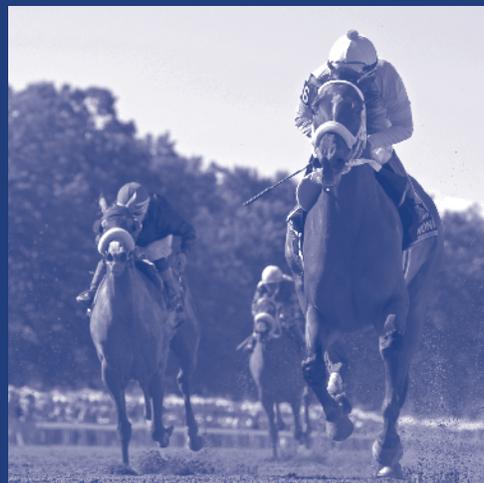


# NATIONAL THOROUGHBRED RACING ASSOCIATION 2017-2018 Annual Report



Advocacy - Integrity - Leadership

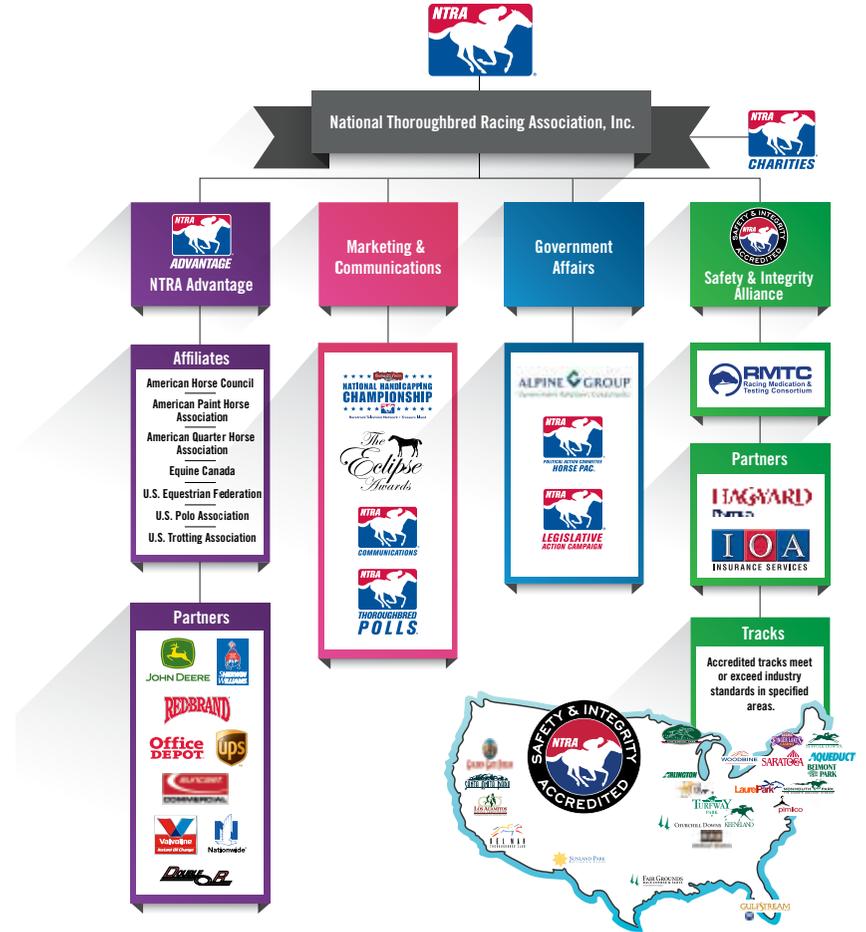




## NATIONAL THOROUGHBRED RACING ASSOCIATION (NTRA)

The NTRA is a broad-based coalition of more than 100 horse racing interests and thousands of individual stakeholders consisting of horseplayers, racetrack operators, advance deposit wagering (ADW) companies, owners, breeders, trainers and affiliated horse racing associations, charged with increasing the popularity, welfare and integrity of Thoroughbred racing through consensus-based leadership, legislative advocacy, safety and integrity initiatives, fan engagement and corporate partner development.

The strength of the NTRA lies in its diverse membership. Time and again – whether it be through programs like legislative advocacy in Washington, D.C., purchasing discounts through NTRA Advantage, or unparalleled growth of the National Horseplayers Championship (NHC) – we have proven that there is much we can achieve when the industry works together in a cohesive, consensus-driven manner.





## SAFETY & INTEGRITY ALLIANCE

Establishes and secures implementation of equine and human safety and integrity standards and practices at the racetrack level through the Alliance Code of Standards and accreditation process. The Code of Standards is revised annually to enhance requirements, evolving today's best practices into basic standards of the future.

## NATIONAL HORSEPLAYERS CHAMPIONSHIP (NHC)

The world's richest and most prestigious handicapping tournament and culmination of a yearlong series of sanctioned local tournaments, each of which sends its top qualifiers to the national final in Las Vegas. Qualifying tournaments are conducted by racetracks, casino race books, off-track betting facilities and horse racing and handicapping websites.

## NTRA COMMUNICATIONS

Hosts national media teleconferences with Thoroughbred racing connections, generates NTRA Thoroughbred Polls and supports racetrack publicity teams on big event days. The Communications team assists media with interviews, background, facts, leads and data with the goal of generating positive coverage of Thoroughbred racing.

## NTRA ADVANTAGE

Develops partnerships and delivers cost savings on products and services to NTRA members and affiliated members from leading partner suppliers. Call 1-866-678-4289 for more information on how you or your business can benefit from the Advantage program.



## ECLIPSE AWARDS

Annually recognizes Thoroughbred horses and individuals whose achievements have earned the title of Champion in their respective categories. Established in 1971, the Eclipse Awards represent the pinnacle of achievement in U.S. Thoroughbred horse racing and have evolved into a multi-day celebration of the best of the best.

## RACING MEDICATION & TESTING CONSORTIUM (RMTc)

Strives to develop and promote uniform rules, policies and testing standards at the national level, coordinates research and educational programs and protects the interests of the racing public. NTRA President and CEO Alex Waldrop serves as chairman. Visit [www.rmtcnet.com](http://www.rmtcnet.com) for information.

## HORSE PAC®

The NTRA's federal Political Action Committee (PAC) promotes and facilitates the accumulation of voluntary contributions from NTRA members for the support of political parties and candidates for elective office in the United States. Horse PAC® is a multi-issue and bipartisan PAC.

## NTRA LEGISLATIVE ACTION CAMPAIGN

Advocates in Washington, D.C., on behalf of the Thoroughbred breeding and racing industry and supports Congressional educational programs through government relations. Major fundraising initiatives to support this effort include the 1/4% Check-off Program for buyers and sellers at all major domestic Thoroughbred sales and the Foal Program for owners and breeders.



### **NTRA Contacts**

Alex Waldrop – President and Chief Executive Officer  
Keith Chamblin – Chief Operating Officer – [kchamblin@ntra.com](mailto:kchamblin@ntra.com)  
Advantage – Jeff Burch – [jburch@ntra.com](mailto:jburch@ntra.com)  
Communications – Jim Mulvihill – [jmulvihill@ntra.com](mailto:jmulvihill@ntra.com)  
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Legislative – Joe Bacigalupo – [joeb@ntra.com](mailto:joeb@ntra.com)  
NHC – Michele Ravencraft – [mravencraft@ntra.com](mailto:mravencraft@ntra.com)  
Safety & Integrity Alliance – Steve Koch – [skoch@ntra.com](mailto:skoch@ntra.com)

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### **National Thoroughbred Racing Association**

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Consolidated Financial Statements

2017

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

Years Ended January 31, 2017 and 2016



Strothman+Co

Consolidated Financial Statements

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

Years Ended January 31, 2017 and 2016

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## **Report of Independent Auditors**

To the Board of Directors  
National Thoroughbred Racing Association, Inc.

We have audited the accompanying consolidated financial statements of National Thoroughbred Racing Association, Inc. and Subsidiaries (the "Association") which comprise the consolidated statements of financial position as of January 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Association's preparation and fair presentation of the consolidated 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 Association'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association as of January 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*STROTSMAN AND COMPANY*

Louisville, Kentucky  
April 25, 2017

Consolidated Statements of Financial Position

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

	<b>January 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 694,081	\$ 945,309
Investments, at fair value	2,115,000	1,929,186
Accounts receivable, net	1,122,647	1,443,136
Prepaid expenses	228,175	232,721
Other assets	309,394	122,854
Property and equipment, net	96,631	83,865
	<u>4,565,928</u>	<u>4,757,071</u>
<b>Total Assets</b>	<b>\$ 4,565,928</b>	<b>\$ 4,757,071</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,477,426	\$ 1,595,887
Deferred revenue	219,904	361,743
Other long-term liabilities	180,912	117,054
	<u>1,878,242</u>	<u>2,074,684</u>
<b>Total Liabilities</b>	<b>1,878,242</b>	<b>2,074,684</b>
<b>Net Assets</b>		
Unrestricted net assets	<u>2,687,686</u>	<u>2,682,387</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,565,928</b>	<b>\$ 4,757,071</b>

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities and Changes in Net Assets

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

	<b>Years Ended January 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Marketing and promotions	\$ 4,755,734	\$ 4,454,073
Membership dues	1,041,390	1,130,017
Advantage	2,362,622	2,887,640
Legislative action campaign	657,801	627,759
Safety and integrity alliance	198,100	233,500
Contributions	5,075	5,155
Other revenues	3,766	16,592
	<hr/>	<hr/>
<b>Total Operating Revenues</b>	9,024,488	9,354,736
<b>Operating Expenses</b>		
Program expenses		
Marketing and promotions	4,347,025	4,231,964
Advantage	2,041,752	2,129,426
Legislative and regulatory programs	669,148	679,569
Safety and integrity alliance	332,519	355,372
Contributions	12,000	1,000
Media communications	253,469	280,530
Supportive services		
General and administrative	1,520,530	1,541,445
Depreciation	49,344	18,761
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	9,225,787	9,238,067
<b>Operating Revenues Over (Under)</b>		
<b>Operating Expenses</b>	(201,299)	116,669
<b>Non-Operating Income (Loss)</b>		
Interest income (expense)	206,598	(70,676)
Other expense		(2,600)
	<hr/>	<hr/>
<b>Total Non-Operating Income (Loss)</b>	206,598	(73,276)
<b>Revenue Over Expenses</b>	5,299	43,393
<b>Unrestricted Net Assets at Beginning of Year</b>	<hr/>	<hr/>
	2,682,387	2,638,994
<b>Unrestricted Net Assets at End of Year</b>	<u>\$ 2,687,686</u>	<u>\$ 2,682,387</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

	<b>Years Ended January 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities</b>		
Revenue over expenses	\$ 5,299	\$ 43,393
Adjustments to reconcile revenues over expenses to net cash used in operating activities		
Unrealized and realized (gains) losses on investments	(133,332)	138,839
Depreciation	49,344	18,761
Change in allowance for doubtful accounts	(12,419)	(7,974)
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable, net	332,908	(342,723)
(Increase) decrease in prepaid expenses	4,546	(17,864)
(Increase) in other assets	(186,540)	(28,562)
Increase (decrease) in accounts payable and accrued liabilities	(118,461)	30,524
Increase (decrease) in deferred revenue	(141,839)	103,723
Increase in other long-term liabilities	63,858	27,212
	<u>                    </u>	<u>                    </u>
<b>Net Cash Used in Operating Activities</b>	(136,636)	(34,671)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	1,549,751	542,105
Purchases of investments	(1,602,233)	(1,022,241)
Purchases of property and equipment	(62,110)	(87,657)
	<u>                    </u>	<u>                    </u>
<b>Net Cash Used In Investing Activities</b>	(114,592)	(567,793)
<b>Net Decrease In Cash and Cash Equivalents</b>	(251,228)	(602,464)
<b>Cash and Cash Equivalents Beginning of Year</b>	<u>945,309</u>	<u>1,547,773</u>
<b>Cash and Cash Equivalents End of Year</b>	<u>\$ 694,081</u>	<u>\$ 945,309</u>

See Notes to Consolidated Financial Statements

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

January 31, 2017 and 2016

**Note A--Nature of Business and Organization**

The National Thoroughbred Racing Association, Inc. (the "NTRA" or the "Association") is a not-for-profit, broad-based coalition of horseplayers, racetrack operators, owners, breeders, trainers and affiliated associations incorporated in December 1997. The mission of the NTRA is to increase the welfare, integrity and popularity of Thoroughbred racing through consensus-based leadership, safety and integrity initiatives, legislative advocacy, corporate partner development and fan engagement.

The consolidated statements of financial position and the consolidated statements of activities and changes in net assets, include the NTRA and its wholly owned subsidiaries, NTRA Charities, Inc. ("NTRA Charities"), EquiSource, LLC (dba "NTRA Advantage") and NTRA Investments, LLC ("NTRA Investments").

NTRA Charities is a not-for-profit, tax-exempt charitable organization whose purpose is to promote and support charities in or related to the Thoroughbred industry. Funds raised by NTRA Charities must be used for these purposes. Unspent net assets of NTRA Charities at January 31, 2017 and 2016 were approximately \$116,000 and \$123,000, respectively.

NTRA Advantage, created in January 2002, is a for-profit, limited liability company whose purpose is to deliver cost savings and value-added services to NTRA members through contracts with major national suppliers.

NTRA Investments LLC is a for-profit limited liability company that is the 100% owner of NTRA Productions LLC, an entity created in 1999 to enter into a television contract. Neither of these entities have had any significant activity in recent years.

Collectively, these consolidated entities are referred to as the "Association" within these consolidated financial statements.

**Note B--Summary of Significant Accounting Policies**

Principles of Consolidation--The consolidated financial statements include the accounts of the NTRA and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Risks and Uncertainties--A significant portion of the Association's revenue is dependent on the overall economy of the Thoroughbred industry.

Revenue Recognition--The Association derives a significant portion of its revenue from membership dues and NTRA Advantage fees.

Racetrack and horsemen's association dues are recognized in the year to which the membership relates. Contributions from public auction sales companies, and horse sellers and buyers participating in designated public auctions, are recognized in the year during which the sale is conducted. Other membership dues are recognized as revenue when earned according to contract terms.

Continued

Notes to Consolidated Financial Statements--Continued

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

January 31, 2017 and 2016

**Note B--Summary of Significant Accounting Policies--Continued**

Promotion, sponsorship and NTRA Advantage revenues are earned based upon the satisfaction of contractual terms. All cash received in the years ended January 31, 2017 and 2016, related to events occurring in fiscal years 2018 and 2017, respectively, is recorded as deferred revenue on the consolidated statements of financial position.

All unrestricted, unconditional charitable contributions are recorded as contributions when received. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Restricted contributions received and expended for their restricted purpose within the same fiscal year are reported as unrestricted contributions.

Cash and Cash Equivalents--The Association considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Investments--Investments in debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated statements of activities and changes in net assets.

Accounts Receivable--Accounts receivable are recorded net of an allowance for doubtful accounts of approximately \$57,000 and \$69,000 as of January 31, 2017 and 2016, respectively. Changes in the allowance are included in general and administrative expenses as bad debt expense on the consolidated statements of activities and changes in net assets. For the years ended January 31, 2017 and 2016, there were no bad debt expenses.

Property and Equipment--Property and equipment are recorded at cost, if purchased, or fair market value at the date of gift if donated. The Association capitalizes asset purchases exceeding \$2,000 with a useful life greater than one year. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which range from two to seven years. Leasehold improvements are stated at cost and amortized using the straight-line method over the lease term. Depreciation expense is approximately \$49,000 and \$19,000 for the years ended January 31, 2017 and 2016, respectively.

Accounting for Uncertain Tax Provisions--The NTRA is exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. However, certain activities of NTRA are subject to tax as unrelated business income. There were no taxes due for the years ended January 31, 2017 and 2016. Additionally, for-profit subsidiaries of NTRA are subject to tax on taxable income, if any. NTRA has generated net tax operating loss carry forwards of nearly \$17 million (expiring from 2022 through 2030), available to offset future taxable income, if any. This results in a deferred tax asset which is fully offset by an allowance since management cannot predict when, if ever, such an asset would be realized.

The Association's open audit years are 2013 through 2016. In evaluating the Association's tax status and potential liabilities, interpretations and tax strategies are considered. The Association believes its estimates are appropriate based on current facts and circumstances.

Continued

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

January 31, 2017 and 2016

**Note B--Summary of Significant Accounting Policies--Continued**

Generally accepted accounting principles prescribe a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There is no impact on the Association's consolidated financial statements as a result of the application of these accounting principles.

Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events--In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 25, 2017, the date the consolidated financial statements were available to be issued.

**Note C--Investments**

Investments are reported at fair value in the accompanying consolidated statements of financial position.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>
<b><u>January 31, 2017</u></b>		
Cash equivalents	\$ 9,940	\$ 9,940
Mutual funds - equity	853,588	853,588
Corporate bonds	<u>1,251,472</u>	<u>1,251,472</u>
	<u>\$ 2,115,000</u>	<u>\$ 2,115,000</u>
<b><u>January 31, 2016</u></b>		
Cash equivalents	\$ 8,486	\$ 8,486
Mutual funds - equity	730,622	730,622
Corporate bonds	<u>1,190,078</u>	<u>1,190,078</u>
	<u>\$ 1,929,186</u>	<u>\$ 1,929,186</u>

Continued

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

January 31, 2017 and 2016

**Note C--Investments--Continued**

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs and other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

*Level 1 Fair Value Measurements* - The fair value of cash equivalents, mutual funds and corporate bonds is based on quoted net asset values of the bonds held by the Association at year-end.

**Note D--Property and Equipment**

Property and equipment consists of the following:

	<u>January 31 2017</u>	<u>January 31 2016</u>
Computer software and equipment	\$ 579,490	\$ 517,380
Furniture and fixtures	158,685	158,685
Other equipment	<u>24,225</u>	<u>24,225</u>
	762,400	700,290
Less accumulated depreciation and amortization	<u>(665,769)</u>	<u>(616,425)</u>
	<u>\$ 96,631</u>	<u>\$ 83,865</u>

**Note E--Debt**

The NTRA has a line of credit with a bank for amounts available up to \$250,000. Outstanding borrowings bear the prime rate of interest not to decrease below a fixed minimum rate of 4.25%, and expires November 21, 2018. This agreement requires a balance of \$750,000 in unrestricted net assets be maintained. As of January 31, 2017 and 2016, the NTRA was in compliance with this requirement and had no outstanding borrowings.

**National Thoroughbred Racing Association, Inc. and Subsidiaries**

January 31, 2017 and 2016

**Note F--Commitments and Contingencies**

Rent expense, which includes rent for office space, storage and various equipment in Lexington, Kentucky, amounted to approximately \$88,000 for the years ended January 31, 2017 and 2016, respectively.

Future minimum lease payments under the existing operating lease agreements as of January 31, 2017 are as follows:

2018	\$	64,170
2019		<u>10,718</u>
	\$	<u><u>74,888</u></u>

**Note G--Retirement Plans**

The National Thoroughbred Racing Association 401(k) Safe Harbor Retirement Plan covers all full-time employees over the age of 21 upon three months of service. Benefits vest immediately as is customary for all safe harbor plans. The NTRA may contribute a discretionary amount of a covered employee's salary. No discretionary amount was paid for the years ended January 31, 2017 and 2016. Additionally, NTRA's required contribution amounted to three percent of each employee's salary. The Associations' contribution expense was \$70,945 and \$67,916 for the years ended January 31, 2017 and 2016, respectively.

The National Thoroughbred Racing Association Deferred Compensation Plan covers full-time eligible employees whose annual compensation exceeds the 401(k) ERISA salary limits. It exists in accordance with Section 457 of the Internal Revenue Code. Under this plan, employee benefits vest at the earlier date of retirement age or the completion of ten years of service (as defined in the plan document). The Association's contribution expense was \$4,391 and \$4,365 for the years ended January 31, 2017 and 2016, respectively.

**Note H--Concentration of Credit Risk**

The Association's cash and investment accounts used in operations are maintained at a financial institution. The cash and cash equivalents are secured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The bank balance of the Association exceeded its FDIC insurance by approximately \$400,000 and \$580,000 as of January 31, 2017 and 2016, respectively. The Association also has cash equivalent and investment accounts covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000. At January 31, 2017 and 2016, the Association had cash equivalents and investments in excess of the SIPC coverage of approximately \$1,500,000 and \$1,600,000, respectively.