



MEMORANDUM

Date: December 17, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Rillito Racing Inc., Financial Statements and Independent Auditors' Report**

Under contract with Pima County, Rillito Racing, Inc., a wholly owned subsidiary of the Rillito Park Foundation has the right to operate horseracing using the racetrack, grandstands, clubhouse areas, barns and other track support areas within the Rillito Regional Park. The contract states that the Operator (Rillito Racing, Inc.) shall provide to Pima County a copy of an audited financial report from an independent certified public accountant prepared according to Generally Accepted Auditing Principles.

Attached is a copy of the Financial Statements and Independent Auditors' Report for the Year Ending June 30, 2018, which was received on November 30, 2018.

CHH/mp

Attachment

c: Jan Leshar, Chief Deputy County Administrator
Tom Burke, Deputy County Administrator for Administration
Carmine DeBonis, Deputy County Administrator for Public Works
Diane Frisch, Director, Attractions and Tourism
Michelle Campagne, Director, Finance and Risk Management
Chris Cawein, Director, Natural Resources, Parks and Recreation

RILLITO RACING, INC.
(a wholly-owned subsidiary
of Rillito Park Foundation)
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2018



R & A CPAs

A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rillito Racing, Inc.
Tucson, Arizona

We have audited the accompanying financial statements of Rillito Racing, Inc. (a wholly owned subsidiary of Rillito Park Foundation) (the "Company"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Basis for Qualified Opinion

As more fully explained in Note H to the financial statements, the Company records purse overpayments as a receivable pursuant to Arizona Administrative Code Title 19, Chapter 2 Arizona Racing Commission. In our opinion, to be in conformity with accounting principles generally accepted in the United States of America, purse overpayments should be expensed as incurred and recoveries of purse overpayments recognized in the period they are realized. If the financial statements were corrected for that departure from United States generally accepted accounting principles, the change in net assets would be decreased by \$10,603 and unrestricted net assets would be decreased by \$425,408.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Rillito Racing, Inc. as of June 30, 2018, and the change 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.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note K to the financial statements, the Company has suffered recurring operating losses, has incurred high interest debt, has suffered significant reductions in net assets, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

R&A CPA

A Professional Corporation

Tucson, Arizona
November 30, 2018

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(See Independent Auditors' Report)

ASSETS

CURRENT ASSETS:

Cash	\$ 6,287
Accounts receivable	28,497
Purse overpayment (Note H)	425,408
Due from Rillito Park Foundation (Note J)	6,749
Inventory	4,240
Prepaid expenses	32,443
	503,624

LONG-TERM ASSETS:

Property and equipment, net of accumulated depreciation of \$270,855	253,847
Deposits	5,000
	258,847

Total long-term assets

TOTAL ASSETS

\$ 762,471

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 197,537
Credit cards payable	25,611
Due to horsemen	5,271
Due to related parties	5,269
Current portion of notes payable to directors	12,936
Current portion of notes payable	96,657
Unclaimed mutuel tickets	14,206
Accrued interest	16,962
	374,449

Total current liabilities

LONG-TERM LIABILITIES:

Notes payable to directors, net of current portion \$12,936	50,000
Notes payable, net of current portion of \$96,657	183,805
	233,805

Total long-term liabilities

TOTAL LIABILITIES

608,254

COMMITMENTS AND CONTINGENCIES (Note I)

NET ASSETS:

Unrestricted	154,217
	154,217

TOTAL LIABILITIES AND NET ASSETS

\$ 762,471

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

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year ended June 30, 2018
(See Independent Auditors' Report)

RACING REVENUES:	
Concessions	\$ 449,570
Pari-mutuel wagering commission	375,957
Hospitality	309,890
Racing purse revenue	182,603
Race meet sponsorships	15,750
Off-season events	45,414
Admissions	33,388
<i>Total racing revenues</i>	<u>1,412,572</u>
RACING EXPENSES:	
Concessions	243,676
Pari-mutuel wagering expense	65,941
Hospitality	43,439
Horsemen's purse payouts	330,942
Racing operations	217,211
Off-season events	11,895
<i>Total racing expenses</i>	<u>913,104</u>
<i>Increase in net assets from racing operations</i>	<u>499,468</u>
OTHER (INCOME) / EXPENSES:	
Facilities	253,489
General and administrative	175,409
Marketing	56,314
Donations	(1,933)
Debt and accrued interest forgiveness	(42,774)
Interest expense	13,254
<i>Total other (income) / expenses</i>	<u>453,759</u>
<i>CHANGE IN NET ASSETS</i>	<u>\$ 45,709</u>
Unrestricted net assets, beginning of year	\$ 108,508
Change in net assets	<u>45,709</u>
Unrestricted net assets, end of year	<u><u>\$ 154,217</u></u>

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

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

STATEMENT OF CASH FLOWS

Year ended June 30, 2018
(See Independent Auditors' Report)

Cash flows from operating activities:	
Change in net assets	\$ 45,709
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	92,509
Debt and accrued interest forgiveness	(42,774)
Changes in operating assets and liabilities:	
Accounts receivable	(28,019)
Purse overpayment	(10,603)
Due from Rillito Park Foundation	12,553
Inventory	(652)
Prepaid expenses	(8,885)
Accounts payable	(62,453)
Credit cards payable	(13,079)
Due to horsemen	(35,541)
Due to related parties	(21,831)
Unclaimed mutuel tickets	(1,060)
Accrued interest	3,500
<i>Net cash used in operating activities</i>	<u>(70,626)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(5,100)
Proceeds from return of property and equipment	1,725
<i>Net cash used in investing activities</i>	<u>(3,375)</u>
Cash flows from financing activities:	
Cash overdraft repayment	(1,981)
Proceeds from issuance of notes payable	243,000
Payment on notes payable	(156,616)
Payment on notes payable to directors	(4,115)
<i>Net cash provided by financing activities</i>	<u>80,288</u>
<i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i>	6,287
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 6,287</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	<u>\$ 9,754</u>

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

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018
(See Independent Auditors' Report)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by Rillito Racing, Inc. (the "Company") in the preparation of its financial statements follows.

Organization and Business Activity

The Company is a wholly owned subsidiary of Rillito Park Foundation (the "Foundation") that was incorporated under the laws of the state of Arizona on March 27, 2014 to operate horse racing and related activities at Rillito Race Track (the "Track") in Tucson, Arizona. The Company derives its primary funding through operating county fair and commercial horse race meets from January through April. The Company offers live horse racing and pari-mutuel wagering as authorized under its permit granted by the Arizona Racing Commission (the "Commission"). The Company has an agreement entitling them to a percentage of Off-Track-Betting ("OTB") revenue generated by OTB simulcasts within Pima County of TP Racing, LLLP ("Turf Paradise"). Additionally, the Company has an agreement with Churchill Downs Technology Initiatives Company ("CDTIC") to receive a percentage of advance deposit wagers made by Arizona residents processed by CDTIC.

Basis of Presentation

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

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 Company reports the support as unrestricted.

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

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

Basis of Presentation (*continued*)

The Company 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 Company considers all liquid instruments purchased with a purchased maturity of three months or less to be cash equivalents. The Company places its cash and cash equivalents with various credit institutions. At times, such cash equivalents 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.

Receivables

Receivables consist of uncollateralized amounts that are due from pari-mutuel simulcasts and other amounts receivable from horsemen. The Company 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. The allowance for doubtful accounts as of June 30, 2018 was \$0.

Purse Overpayments

Purse overpayments represent the net amounts due from the horsemen for payments made by the Company to the purse in excess of the required percentage of the handled wagers on each race. The amount of purse money to be paid to the horsemen is determined as a percentage of the wagered handle. The Company may provide purse payments that exceed the statutorily required purse, which results in the recoding of a purse overpayment. The purse overpayments are recovered through receipt of the portion of OTB revenues due to the Company that are allocable to the horsemen's account. Management anticipates fully recovering purse overpayment through future OTB revenue collections. The recording of the purse overpayment by the Company is required by the state of Arizona statute; however, as more fully explained in Note H, this accounting treatment results in a departure from accounting principles generally accepted in the United States of America.

Property and Equipment

Equipment, furniture and fixtures are 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 to fifteen years.

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

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

Property and Equipment - continued

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 Company 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 capitalized and depreciated over the period of estimated usage of the improvements.

In accordance with FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company 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, 2018.

Inventory

Inventory is valued at the lower of cost (average cost) or market. Inventory for the Company consists of promotional clothing and liquor items from concessions.

Advertising

The Company expenses all advertising costs as incurred. Advertising expense for the year ended June 30, 2018 was \$31,140.

Income Taxes

Generally, as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 43-1201.4 of the Arizona Revised Statutes ("ARS"), the Company is exempt from federal and state income taxes and, accordingly, no provision for income taxes on not-for-profit activities 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 Company'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 may be determined upon examination by taxing authorities. The Company is no longer subject to federal and state tax examinations by taxing authorities for years before 2014, unless specific conditions are met.

Donated Goods, Facilities and Services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value when the services received require specialized skill, the services are provided by individuals possessing those skills, and the services would typically be purchased if not provided by donation.

Although the Company utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

NOTE B – RACING OPERATIONS

The Company conducts live meets that start in January and run through the end of April in accordance with ARS §5-107.

Percentage of Handle Received as Commissions

The state of Arizona determines the maximum percentage of pari-mutuel commissions for on-track, simulcast and within the state off-track racing. The Company does not seek the maximum permitted commissions. The Company 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 Company receives or accumulates unclaimed pari-mutuel winnings. One year after the end of the race meet, the Company 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, 2018, there was approximately \$14,206 in unclaimed pari-mutuel winnings.

Competition – Proliferation of Alternative Gaming

The Company'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 24 operating casinos in Arizona.

Along with casino gaming, the Company also competes with a state-run lottery and horse racing simulcasts, as well as internet gambling.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018:

Equipment	\$ 220,410
Furniture and Fixtures	50,017
Improvements	<u>254,275</u>
	524,702
Less accumulated depreciation	<u>(270,855)</u>
<i>Total property and equipment, net</i>	<u>\$ 253,847</u>

Depreciation expense for the year ended June 30, 2018 was \$92,509.

RILLITO RACING, INC.
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NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

NOTE D – NOTES PAYABLE TO DIRECTORS

In March 2014, the Company and the Foundation executed three promissory notes each for \$25,000 with three directors of the Company. Each note bears interest at 7% per annum, and all unpaid principal and interest were due March 2017. No payments had been made on the notes payable to two of the directors. The remaining shareholder had begun receiving principal and interest payments in 2017. In November 2017, the Company and the directors entered into standby agreements with Non-profit Loan Fund of Tucson and Southern Arizona (“NPLF”) whereby, no payments are to be made by the Company on the outstanding notes payable to directors without the consent of NPLF. Two of the directors agreed to continue to suspend payments of principal and interest.

The Company received approval to continue making principal and interest payments to the remaining director. The note payable to the remaining director was amended, extending the maturity to May 1, 2018. This note was not fully satisfied as of June 30, 2018, and no further modification to the note payable have been made; however, the Company continues to make payments as authorized by NPLF and intends to continue payments until the note is satisfied in full. Total outstanding balance was \$62,936 at June 30, 2018.

NOTE E – DEBT

Notes payable consisted of the following at June 30, 2018:

Note payable to equipment financing company due in five annual installments of \$16,253, including interest at 4.15% per annum, maturing in February 2021, and collateralized by the financed equipment with a carrying value of \$41,606 as of June 30, 2018.	\$ 44,923
Note payable to equipment financing company due in five annual installments of \$4,826, including interest at 4.55% per annum, maturing in April 2022, and collateralized by the financed equipment with a carrying value of \$18,569 as of June 30, 2018.	17,258
Note payable to NPLF in the amount of \$225,000, at 8% per annum. The note requires monthly interest-only payments during the first 3 months of the loan and then monthly principal and interest payments of \$7,618 until maturity on November 20, 2020. This note is collateralized by all property and equipment, inventory and accounts of the Company.	200,281
Line of Credit with National Bank of Arizona with a credit limit of \$50,000, with required monthly minimum principal payments determined on a monthly basis and monthly interest payments at the prime rate (5.00% as of June 30, 2018) plus 9.99% per annum with all outstanding principal and unpaid interest maturing on June 25, 2021.	18,000
<i>Total notes payable</i>	<u>280,462</u>
<i>Current portion of notes payable</i>	<u>96,657</u>
<i>Long-term portion</i>	<u>\$ 183,805</u>

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

NOTE E – DEBT (continued)

The Company also had an outstanding debt in the amount of \$135,000 with accrued unpaid interest in the amount of \$7,774, which was settled for a \$100,000 payment during the year ended June 30, 2018. The creditor forgave the remaining unpaid principal and interest and the Company recognized debt and accrued interest forgiveness in the amount of the \$42,774.

Maturities of notes payable to directors and debt for the next five years as of June 30, 2018 are as follows:

Years ending <u>June 30,</u>	
2019	\$ 109,593
2020	154,017
2021	75,215
2022	4,573
2023	<u>-</u>
Total	<u>\$ 343,398</u>

NOTE F – PARI-MUTUEL REVENUE

The Company has a month-to-month agreement with Turf Paradise to receive a commission fee of 1.86% of the net amount of the wagers (gross wagers less refunds and cancellations) accepted and received in Pima County at the OTB sites. The Company also receives an additional commission fee of 2.79% of the net amount of wagers accepted and received at the OTB sites on the days live racing is conducted at the Track. The additional commission shall not be received for more than nineteen days per year. Total simulcast commissions for the year ended June 30, 2018 from Turf Paradise totaled to \$85,545.

During January 2018, the Company entered in an agreement with Churchill Downs Technology Initiatives Company ("CDTIC"), whereby the Company will receive a percentage of the advance deposit wagers made by Arizona residents processed by CDTIC (the "Arizona Source Market Fee"). The Arizona Source Market Fee is calculated as 60% of the net revenue (Arizona gross handle less certain fees, taxes and rebates) or the remainder of net revenue after deducting the Arizona hub fee, when 40% of net revenue is less than 6% of the Arizona gross handle. The agreement with CDTIC is on a short-term basis, however, is expected to be renewed through March 2020. As of the date of the financial statements the renewal has not been signed. The total Arizona Source Market fee for the year ended June 30, 2018 from CDTIC totaled \$11,192.

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

NOTE G – OPERATING AGREEMENT

The Company has an operating agreement with Pima County Office of Economic Development & Tourism (the "County") to conduct horse racing at Rillito Park (the "Park"), expiring in June 2021. The agreement is subject to renewal upon approval at the end of the term. Additionally, the agreement requires the Company to make a total of \$1,000,000 in improvements to the race track facility over the term of the agreement in accordance with a detailed schedule provided in the agreement. Violation of this schedule of improvements may result in termination of the agreement. Expense for the usage of the Park was \$11,734 for the year ended June 30, 2018. The minimum annual fee for payments is based upon eight total racing days during each racing season, plus an additional fee for each paid admission to the Track during race days. The annual fee is adjusted based on the actual racing days during each racing season and is based upon a base fee of \$1,750 per live race plus \$0.50 per admission, or \$450 per day for simulcast events held at the Park. Future minimum payments for the next five years are as follows:

Years ending	
<u>June 30,</u>	
2019	14,000
2020	14,000
2021	<u>14,000</u>
Total	\$ 42,000

NOTE H – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Under accounting principles generally accepted in the United States of America, purse overpayments that exist at the end of a race meet should be expensed as incurred. However, under Arizona Administrative Code Title 19, Chapter 2 Arizona Racing Commission, purse overpayments should be treated as an asset to the extent that they are recoverable. In accordance with industry practice, management has elected to record the purse overpayments as receivables to be recovered through additional OTB revenue received from subsequent race meets. The effect of this departure from generally accepted accounting principles increases the change in net assets by \$10,603 and unrestricted net assets by \$425,408.

NOTE I – COMMITMENTS AND CONTINGENCIES

The operations of the Company are dependent on its ability to obtain a racing permit from the Arizona Department of Racing, as well as the ability to lease Rillito Park from Pima County. The Company holds a temporary permit for the 2018 racing season with the intent to renew a 3 year permit that, if obtained, would expire in 2020.

Additionally, the operations of the Company are dependent upon continuing the OTB agreement with Turf Paradise, which expired in May 2017 and is now being renewed on a month-to-month or other short-term basis. Renewal of this agreement is contingent upon the ability of the Company to obtain the racing permit described above. As of June 30, 2018, the agreement has been renewed through December 31, 2018.

Rillito Park Foundation and Rillito Racing, Inc. are jointly billed for legal services. The Company has accrued 100% of the current outstanding balance. Certain amounts may be recoverable from Rillito Park Foundation.

RILLITO RACING, INC.
(a wholly owned subsidiary of Rillito Park Foundation)

NOTES TO FINANCIAL STATEMENTS – *CONTINUED*

June 30, 2018
(See Independent Auditors' Report)

NOTE J – RELATED PARTY TRANSACTIONS

As of June 30, 2018, Rillito Park Foundation owes the Company \$6,749 for expense reimbursements and other operating advances.

The Company jointly with Rillito Park Foundation obtained a loan from the NPLF which is being paid by the Company. The terms and outstanding balance of this loan are more fully describes in Note E.

NOTE K – MANAGEMENT'S INTENT

Historically, the Company has suffered recurring operating losses and has funded these losses through the issuance of high interest debt. During the current year, the Company was able to generate positive operating results; however, given the existence of the accumulated losses to date, management is concerned that the Company's cash flows will not enable it to meet its obligations for twelve months from the date these financial statements are available to be issued. To mitigate the effect of these conditions, management has obtained more favorable financing, negotiated payments with its creditors, negotiated a larger commission after certain Arizona legislation was passed, and has entered into an agreement to receive additional OTB revenue, as more fully described in Note F.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

NOTE L – SUBSEQUENT EVENTS

Accounting principles generally accepted in the United States of America require the disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. A subsequent event is an event or transaction that occurs after the balance sheet date but before the financial statements are issued. The Company evaluated subsequent events through November 30, 2018 which represents the date the financial statements were available to be issued.