

**Ontario Racing Association
Financial Statements
For the Year Ended March 31, 2018**

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Independent Auditor's Report

To the Board of Directors of Ontario Racing Association

We have audited the accompanying financial statements of Ontario Racing Association, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting described in Note 1.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting described in Note 1; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation 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 Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independent Auditor's Report

(continued)

Opinion

In our opinion, the financial statements as at and for the period ended March 31, 2018 are prepared, in all material aspects, in accordance with the basis of accounting described in Note 1.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Ontario Racing Association with their internal reporting and their external reporting requirements to the Alcohol and Gaming Commission of Ontario. As a result, the financial statements may not be suitable for another purpose.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
September 25, 2018

**Ontario Racing Association
Statement of Financial Position**

March 31 **2018** **2017**

Assets

Current

Cash	\$ 185,821	\$ 197,327
Accounts receivable	151,098	59,044
Prepaid expenses	29,080	49,007
Due from HIP and QHRIDP (Pages 12, 15)	<u>28,738</u>	<u>61,159</u>
	<u>\$ 394,737</u>	<u>\$ 366,537</u>

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 394,737	\$ 366,537
	<u>\$ 394,737</u>	<u>\$ 366,537</u>

On behalf of the Board:

_____ Director

_____ Director

Ontario Racing Association
Statement of Operations and Changes in Net Assets

For the year ended March 31	2018	2017
Revenue		
Government funding	\$ 1,256,356	\$ 1,365,605
HST recoverable	58,431	54,576
Other income	3,818	773
	<u>1,318,605</u>	<u>1,420,954</u>
Expenses		
Salaries and wages (Note 2)	590,307	638,688
HIP review	167,329	-
Rent (Note 2)	154,807	105,792
Marketing and promotion	116,623	28,200
Communications and social media	67,190	64,298
Policy and business plan development	57,324	105,909
Stakeholder engagement	56,415	39,569
Staff travel and meals	22,120	24,846
Professional services	20,806	24,176
Audit	20,063	25,000
Supplies and printing	19,489	13,166
Phone, fax, internet	16,652	17,411
Computer equipment lease	13,983	19,622
Insurance	12,409	8,866
Legal services	11,623	37,638
Interim Governance Committee (Note 3)	-	190,137
Corporate services (recoverable)	(28,535)	77,636
	<u>1,318,605</u>	<u>1,420,954</u>
Excess of revenues over expenses	-	-
Net assets, beginning and end of year	\$ -	\$ -

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

Ontario Racing Association
Statement of Cash Flows

For the year ended March 31	2018	2017
Cash flows from operating activities		
Changes in non-cash working capital:		
Accounts receivable	\$ (92,054)	\$ 228,331
Prepaid expenses	19,927	(49,007)
Due from HIP and QHRIDP	32,421	(61,159)
Accounts payable and accrued liabilities	28,200	309,107
Deferred revenue	-	(282,687)
Net (decrease) increase in cash	(11,506)	144,585
Cash, beginning of the year	197,327	52,742
Cash, end of the year	\$ 185,821	\$ 197,327

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

Ontario Racing Association Notes to Financial Statements

March 31, 2018

1. Significant Accounting Policies

Nature and Purpose of Organization

The Ontario Racing Association "OR" was incorporated without share capital under the laws of Ontario on December 7, 2015. OR is a not-for-profit horse racing industry association, recognized by the provincial government as the authority for horse racing in Ontario.

OR is responsible for setting an annual program of races and purses, attracting new horse owners, building a fan base and connecting the industry with government and the general public.

OR serves as the voice of the horse racing industry and works closely with the Ontario Lottery and Gaming Corporation (OLG) towards the integration of horse racing into OLG's gaming strategy.

Effective April 1, 2016, OR also serves as the Program Administrator for the Standardbred (SIP) and Thoroughbred (TIP) Improvement Programs, components of Ontario's Horse Improvement Program (HIP) as well as the Quarter Horse Racing Industry Development Program (QHRIDP), collectively "the Programs".

The purpose of HIP is to improve the quality of horse racing and breeding stock in Ontario, through the payment of purses, bonuses and other racing related incentives to eligible program participants.

The objective of the QHRIDP is to support development of a strong and sustainable quarter horse racing industry in Ontario, through the payment of bonuses and other racing related incentives to successful eligible Program participants. Specifically, the QHRIDP's main objectives are to achieve measured, balanced growth for the sector and to improve the quality and quantity of Ontario bred racing stock active in quarter horse racing in Ontario.

OR is exempt from income tax.

Ontario Racing Association Notes to Financial Statements

March 31, 2018

Basis of Accounting

The financial statements have been prepared using the recognition and measurement principles of Canadian accounting standards for not-for-profit organizations except:

HIP and QHRIDP, (the "Programs"), are programs controlled by the Organization, effective April 1, 2016 and are not included in the statement of financial position or the statements of operations and changes in net assets and cash flows.

Stranded purse funds are externally restricted funds administered by OR and are not included in the statement of financial position or the statements of operations and changes in net assets and cash flows.

Financial information related to the programs and stranded purse funds is included in schedules to the financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

On June 30, 2018, OR entered into a purchase agreement with Horse Racing Ontario ("HRO") to sell assets and liabilities as defined in the agreement. All operations of OR will be continued by HRO, including the Programs and Stranded Purse Funds. Thereafter, OR will be legally dissolved.

Ontario Racing Association Notes to Financial Statements

March 31, 2018

Revenue Recognition

OR follows the restricted fund method of accounting for contributions relating to the Programs. Restricted contributions are recognized as revenue of the restricted funds in the Programs or stranded purse funds. The stranded purse funds are to be used for Standardbred purses or to fund activities that will provide benefits to all or a sizeable portion of horse people. In HIP, the thoroughbred fund reports restricted resources, which are to be used to support thoroughbred racing. The standardbred fund reports restricted resources, which are to be used to support standardbred racing. In QHRIDP, the unrestricted funds are to be used for the promotion and development of quarter horse racing in Ontario.

Restricted contributions related to operations that are not part of the Programs are deferred and recognized as revenue of the operating surplus in the year in which the related expenses are incurred.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Wagering levies are recognized in the year in which the wager was made. HIP receives three percent of total wagering generated in Ontario on worldwide product. Levies generated at Ajax Downs are transferred annually to the QHRIDP. Pari-mutuel tax reduction revenue is calculated at 0.4% of wagering at Ajax Downs on worldwide product.

All other revenues are recognized as received or receivable if the risks and rewards have been transferred, the amount to be received can be reasonably estimated and collection is reasonably assured. Nominating, sustaining fees and starting fees are deferred when they relate to a future race year.

Ontario Racing Association Notes to Financial Statements

March 31, 2018

Financial Instruments

Financial Instruments are recorded at fair value at initial recognition. Financial instruments are subsequently reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

2. Cost Recoveries and Allocations

A portion of OR's space is rented out to the Alcohol and Gaming Commission of Ontario ("AGCO"). Rent of \$125,871 (2017 - \$81,601) was received from the AGCO during the year, reducing the amount of rent expensed during the period.

A portion of OR employees' salaries are charged to both the HIP and QHRIDP. This amount represents the salaries of employees who work exclusively on these Programs, as well as a portion related to shared services of OR staff, for items such as accounting and administration. During the year \$44,241, \$164,405 and \$89,006 (2017 - \$54,822, \$168,168 and \$96,138) of salary related costs were charged to the TIP, SIP and QHRIDP respectively and are included in the Schedules of Revenues, Expenses and Changes in Net Assets of the respective programs.

3. Interim Governance Committee

Anticipating the integration of horse racing into the Ontario gaming strategy, the government commissioned the Interim Governance Committee (IGC) of OR to assist in the setting up of OR and with transition issues.

The IGC worked closely with government partners at the OLG, and the AGCO and with the Ontario Horse Racing Industry Association to identify and resolve transition issues, assist in developing long-term strategies and build a robust industry association.

The activities of the IGC ceased December 31, 2016.

Ontario Racing Association Notes to Financial Statements

March 31, 2018

4. Commitment

OR is committed to the following future minimum lease payments under an operating lease for office premises and computers.

2019	\$ 263,139
2020	252,835
2021	251,439
2022	253,790
2023	254,966
Thereafter	<u>849,887</u>
	<u>\$ 2,126,056</u>

5. Administration (Pages 13, 14)

Under contract with OR, The Canadian Thoroughbred Horse Society, Ontario Division ("CTHS") provides certain administrative functions to OR pertaining to the Thoroughbred Improvement Program in Ontario. Fees of \$44,000 (2017 - \$44,000) for the administration of the thoroughbred program were charged during the year by the CTHS.

Under contract with OR, Standardbred Canada provides certain administrative functions to OR pertaining to the Standardbred Improvement Program in Ontario. Fees of \$101,574 (2017 - \$117,633) for the administration of the standardbred program were charged during the year by Standardbred Canada.

6. Pari-Mutuel Tax Reduction Receivable (Page 15)

These amounts are being held by the Quarter Racing Owners of Ontario Inc. ("QROOI") for purposes approved by the Program Administrator and as specified in QHRIDP.

The receivable is unsecured, bears interest at the rate earned on the bank account in which it is held and has no fixed terms of repayment. The quarter horse racing industry has received 3 years of transitional funding which will not flow through QHRIDP and as such, neither will the related expenses. As a result, the funds held by QROOI will not be needed in the next fiscal year and have been classified as long-term.

Ontario Racing Association Notes to Financial Statements

March 31, 2018

7. Financial Instruments

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The OR is exposed to credit risk resulting from the possibility that a counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or if financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The OR's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable. The majority of the OR's receivables are from government sources and the OR works to ensure it meets all eligibility criteria in order to qualify to receive the funding.

8. Standardbred Purse Funds Held In Trust (Pages 17, 18)

In June 2017, the Ontario Lottery and Gaming Corporation transferred \$2,500,000 of purse funds to OR. These funds are to be used for additional purse enhancements to existing standardbred purse levels, or to fund activities that will provide benefits to all or a sizeable portion of horse people.

9. Comparative Figures

Certain comparative figures have been reclassified in order to conform with the financial presentation adopted for the current year.

Horse Improvement Program
Schedule of Assets, Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 8,393,921	\$ 7,751,509
Accounts receivable	1,348,775	381,567
Prepaid expenses	1,119	1,544
	<u>\$ 9,743,815</u>	<u>\$ 8,134,620</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 210,063	\$ 93,310
Due to Canadian Thoroughbred Horse Society	3,601	3,601
Due to Quarter Horse Racing Industry Development Program (Page 15)	245,993	310,958
Deferred Nominating and Sustaining Fees	1,247,600	1,058,800
Due to Ontario Racing Association (Page 3)	19,391	41,103
	<u>1,726,648</u>	<u>1,507,772</u>
Net assets		
Thoroughbred Fund	3,627,028	3,350,745
Standardbred Fund	4,390,139	3,276,103
	<u>8,017,167</u>	<u>6,626,848</u>
	<u>\$ 9,743,815</u>	<u>\$ 8,134,620</u>

Horse Improvement Program
Schedule of Revenues, Expenses and Changes in Net Assets
- Thoroughbred Fund

For the year ended March 31	2018	2017
Revenue		
Wagering levy	\$ 12,693,128	\$ 13,105,133
Top-up from pari-mutuel commissions	2,305,892	1,776,146
Interest and miscellaneous income	48,821	35,065
Stallion fees	17,100	10,000
	<u>15,064,941</u>	<u>14,926,344</u>
Expenditures		
Restricted overnight purses	4,490,000	4,490,000
Stake purses	4,000,000	4,000,000
Ontario bred purse bonus	2,800,000	2,800,000
Breeders' awards	2,579,723	2,888,131
Stallion awards	297,200	298,966
Mare purchase program	224,500	-
Marketing and promotion	168,474	140,674
Equine research	65,000	100,000
Other program incentives	59,375	77,261
Administration (Note 5)	50,074	47,669
Salaries and wages (Note 2)	44,241	54,822
Professional fees	10,071	9,529
	<u>14,788,658</u>	<u>14,907,052</u>
Excess of revenue over expenses	276,283	19,292
Net assets, beginning of year	3,350,745	3,331,453
Net assets, end of year	\$ 3,627,028	\$ 3,350,745

Horse Improvement Program
Schedule of Revenues, Expenses and Changes in Net Assets
- Standardbred Fund

For the year ended March 31	2018	2017
Revenue		
Wagering levy	\$ 12,693,127	\$ 13,105,133
Top-up from pari-mutuel commissions	2,305,892	1,776,146
Sustaining, nominating, and starting fees	1,863,000	2,293,250
Stallion Fees	220,250	99,050
Ontario mare resident program	102,355	61,050
Interest and miscellaneous income	75,423	57,652
Other revenue	-	10,140
	<u>17,260,047</u>	<u>17,402,421</u>
Expenditures		
Ontario Sires Stakes Purses	\$ 12,350,650	\$ 14,666,000
Owner's bonus	2,000,000	-
Breeders' incentives	1,130,000	1,805,346
Marketing and promotion	246,266	282,376
Salaries and wages (Note 2)	164,405	168,168
Database services	101,574	61,020
Administration, office and general (Note 5)	78,045	139,314
Equine research	65,000	80,000
Professional fees	10,071	9,529
Owners purse bonus	-	551,389
	<u>16,146,011</u>	<u>17,763,142</u>
Excess (deficiency) of revenue over expenditures	1,114,036	(360,721)
Net assets, beginning of year	3,276,103	3,636,824
Net assets, end of year	\$ 4,390,139	\$ 3,276,103

Quarter Horse Racing Industry Development Program
Schedule of Assets, Liabilities and Net Assets

For the year ended March 31	2018	2017
Assets		
Cash	\$ 757,307	\$ 2,902,821
Accounts receivable	129,080	59,043
Due from Horse Improvement Program (Page 12)	245,993	310,958
	1,132,380	3,272,822
Pari-mutuel tax reduction receivable (Note 6)	922,763	889,964
	\$ 2,055,143	\$ 4,162,786
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 63,392	\$ 43,413
Due to Ontario Racing Association (Page 3)	9,347	20,056
	72,739	63,469
Net assets		
Unrestricted	1,982,404	4,099,317
	\$ 2,055,143	\$ 4,162,786

Quarter Horse Racing Industry Development Program Schedule of Revenues, Expenses and Changes in Net Assets

For the year ended March 31	2018	2017
Revenue		
Wagering levies (Note 1)	\$ 245,994	\$ 256,542
Track contributions	62,008	62,154
Pari-mutuel tax reductions revenue (Note 1)	32,799	33,031
Interest Income	16,219	42,474
	<u>357,020</u>	<u>394,201</u>
Expenditures		
Overnight purses	1,424,594	1,435,025
Stakes purses	420,000	410,000
Operational Funding to Quarter Racing Owners of Ontario Inc.	255,350	242,200
Third start bonus	90,000	67,000
Insurance and benefits	67,039	71,721
Marketing and communications	41,160	53,603
Equine research	20,000	20,000
Post racing incentives	19,469	20,376
Breeders' rewards	6,000	30,000
	<u>2,343,612</u>	<u>2,349,925</u>
Administration		
Salaries and wages (Note 2)	89,006	96,138
Database and server	29,250	55,911
Professional fees	7,420	4,000
Meetings, printing and other administration	4,645	12,524
	<u>130,321</u>	<u>168,573</u>
Total expenses	<u>2,473,933</u>	<u>2,518,498</u>
Deficiency of revenue over expenses	(2,116,913)	(2,124,297)
Net assets, beginning of year	<u>4,099,317</u>	<u>6,223,614</u>
Net assets, end of year	<u>\$ 1,982,404</u>	<u>\$ 4,099,317</u>

Stranded Purse Funds
Schedule of Assets and Net Assets

For the year ended March 31 **2018**

Assets	
Cash	\$ 1,419,153
Interest receivable	<u>1,868</u>
	\$ 1,421,021

Net assets	
Restricted stranded purse funds	\$ 1,421,021

Stranded Purse Funds
Schedule of Revenues, Expenses and Changes in Net Assets

For the year ended March 31	2018
Revenue	
Stranded purse	\$ 2,500,000
Interest	<u>17,412</u>
	<u>2,517,412</u>
Purse expenses	
Western Fair	492,901
Flamboro Downs	470,508
Rideau Carleton	<u>132,982</u>
	<u>1,096,391</u>
Excess of revenue over expenditures	1,421,021
Net assets, beginning of year	<u>-</u>
Net assets, end of year	\$ 1,421,021
