



**ONTARIO HORSE RACING
INDUSTRY ASSOCIATION
HORSE IMPROVEMENT PROGRAM**

FINANCIAL STATEMENTS

DECEMBER 31, 2004

Hilborn Ellis Grant LLP
Chartered Accountants
Toronto, Ontario



OHRIA HORSE IMPROVEMENT PROGRAM

Auditors' Report

To the Members of
Ontario Horse Racing Industry Association

We have audited the statement of financial position of **Ontario Horse Racing Industry Association - Horse Improvement Program** as at December 31, 2004 and the statements of operations and changes in net assets - Thoroughbred Fund, - Standardbred Fund, - Undistributed Pooling Fund, - Undesignated Funds and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Program as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
February 4, 2005, except as to note 9,
which is as of February 15, 2005

Hilborn Ellis Grant LLP
Chartered Accountants



Statement of Financial Position

December 31, 2004	2004 \$	2003 \$
ASSETS		
Current Assets		
Cash and short-term investments	4,325,776	5,207,612
Accounts receivable	3,939,699	2,905,022
Prepaid expenses	19,955	-
Due from racetracks <i>(note 3)</i>	188,460	170,496
Due from Ontario Harness Horse Association	123,254	333,544
Due from Canadian Thoroughbred Horse Society	497,919	417,351
	9,095,063	9,034,025
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,694,609	1,112,495
Due to racetracks <i>(note 3)</i>	171,423	186,206
Deferred nomination fees	279,025	277,550
	3,145,057	1,576,251
NET ASSETS		
Thoroughbred fund	71,458	1,728,036
Standardbred fund	5,668,310	5,399,042
Undistributed pooling fund	60,136	180,594
Undesignated funds <i>(note 4)</i>	150,102	150,102
	5,950,006	7,457,774
	9,095,063	9,034,025

Approved on behalf of the Board:

Director

Director



OHRIA HORSE IMPROVEMENT PROGRAM

Statement of Operations and Changes in Net Assets - Thoroughbred Fund

Year ended December 31, 2004	2004	2003
	\$	\$
Revenue		
Wagering levy	15,669,484	16,150,798
Breeders' incentive (note 5)	1,373,076	1,445,499
Slot revenue (note 6)	3,804,995	4,094,930
Stallion fees	17,100	16,500
Interest and miscellaneous income	29,664	73,059
	<u>20,894,319</u>	<u>21,780,786</u>
Expenditures		
Purse supplement	10,824,052	11,183,950
Stake purse supplement	7,794,200	7,973,700
Breeders' awards	2,698,640	2,801,768
Stallion awards	500,000	500,000
Equine research	120,273	123,827
Marketing and promotion	299,082	303,365
Insurance	229,500	158,234
Administration (note 8)	50,401	36,400
Office and general (recovery)	2,307	(5,173)
Professional fees	32,442	22,775
	<u>22,550,897</u>	<u>23,098,846</u>
Excess of expenditures over revenue for year	(1,656,578)	(1,318,060)
Net assets, beginning of year	<u>1,728,036</u>	<u>3,046,096</u>
Net assets, end of year	<u>71,458</u>	<u>1,728,036</u>

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Statement of Operations and Changes in Net Assets - Standardbred Fund

Year ended December 31, 2004	2004	2003
	\$	\$
Revenue		
Wagering levy	15,651,293	15,966,871
Breeders' incentive (note 5)	1,849,710	1,872,329
Slot revenue (note 6)	9,105,418	8,521,940
Other (note 7)	3,481,905	3,337,767
Stallion fees	18,100	20,400
Interest and miscellaneous income	233,476	383,942
	<u>30,339,902</u>	<u>30,103,249</u>
Expenditures		
Purse supplement	7,862,373	8,058,267
Stake purse supplement	19,857,806	20,563,393
Breeders' awards	1,425,760	1,452,816
Equine research	114,534	116,353
Marketing and promotion	431,549	409,743
Administration (note 8)	262,117	260,044
Database services (note 8)	41,730	40,660
Bank charges	6,703	7,201
Office and general	33,172	23,742
Professional fees	34,890	57,047
	<u>30,070,634</u>	<u>30,989,266</u>
Excess of revenue over expenditures (expenditures over revenue) for year	269,268	(886,017)
Net assets, beginning of year	<u>5,399,042</u>	<u>6,285,059</u>
Net assets, end of year	<u>5,668,310</u>	<u>5,399,042</u>



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Statement of Operations and Changes in Net Assets - Undistributed Pooling Fund

Year ended December 31, 2004	2004 \$	2003 \$
Revenue	-	-
Expenditures		
Distributions	120,458	301,145
Excess of expenditures over revenue for year	(120,458)	(301,145)
Net assets, beginning of year	180,594	481,739
Net assets, end of year	60,136	180,594

Statement of Operations and Changes in Net Assets - Undesignated Funds

Year ended December 31, 2004	2004 \$	2003 \$
Revenue	-	-
Expenditures	-	-
Excess of revenue over expenditures for year	-	-
Net assets, beginning of year	150,102	150,102
Net assets, end of year	150,102	150,102



Statement of Cash Flows

Year ended December 31, 2004	2004	2003
	\$	\$
Cash flows from operating activities		
Excess of expenditures over revenue for year	(1,507,768)	(2,505,222)
Changes in non-cash working capital		
Increase in accounts receivable	(1,034,677)	(975,356)
Increase in prepaid expenses	(19,955)	-
Decrease in due from Ontario Harness Horse Association	210,290	379,914
Decrease (increase) in due from Canadian Thoroughbred Horse Society	(80,568)	566,298
Decrease (increase) in due from racetracks	(17,964)	835,392
Increase (decrease) in accounts payable and accrued liabilities	1,582,114	(1,048,011)
Increase (decrease) in due to racetracks	(14,783)	186,206
Increase in deferred nomination fees	1,475	14,450
Decrease in cash and short-term investments during year	(881,836)	(2,546,329)
Cash and short-term investments, beginning of year	5,207,612	7,753,941
Cash and short-term investments, end of year	4,325,776	5,207,612
	2004	2003
	\$	\$

Supplementary Disclosure of Cash Flow Information

Interest paid	-	-
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Notes to Financial Statements

December 31, 2004

1. Organization

The Ontario Horse Racing Industry Association (“OHRIA”) is a not-for-profit organization incorporated under the laws of Ontario. It represents and supports participants in the horse racing and breeding industry and promotes co-operation amongst industry participants for the creation of a strong future for the horse racing industry in Ontario. The objective of the Horse Improvement Program (“Program”) is to improve the quality and quantity of racing and breeding stock in Ontario. Administrative responsibility for the Program was delegated to OHRIA effective January 1, 1997, pursuant to a Memorandum of Understanding (“MOU”) between the Ontario Ministry of Consumer and Commercial Relations, the Ontario Racing Commission and OHRIA. The MOU provided for a reduction of pari-mutuel taxes, which revenues are allocated to various industry participants. The MOU has been supplemented by subsequent agreements to accommodate the treatment of revenues from slot machines.

These financial statements pertain only to the activities of the Program that are the subject of agreements reached among industry participants. Separate financial statements as at December 31, 2004 have been prepared for OHRIA.

2. Significant Accounting Policies and General

a) Restricted fund accounting

The Program follows the restricted fund method of accounting for revenues and contributions.

The Thoroughbred fund reports restricted resources, which are to be used for the promotion and support of thoroughbred racing.

The Standardbred fund reports restricted resources, which are to be used for the promotion and support of standardbred racing through the Ontario Sires Stakes.

Undistributed pooling funds are collected from racetracks that have slot machines and are redistributed to those racetracks that do not have them. Revenues of this fund were collected only to the end of 2001.

b) Revenue recognition

The Program collects a levy of two percent on all wagers plus an additional two percent on triactors during the year for the purpose of funding the Program. Revenues are recognized in the year to which they relate.



Notes to Financial Statements (continued)

December 31, 2004

2. Significant Accounting Policies and General (continued)

c) Financial instruments

Financial instruments consist of all assets and liabilities except prepaid expenses and deferred nomination fees. The fair value of these financial instruments approximates their carrying value.

d) Measurement uncertainty

Financial statements are based on representations that often require estimates to be made in anticipation of future transactions and events and include measurements that may, by their nature, be approximations.

3. Due from (to) Racetracks

These amounts represent the balance of funds that are collected and disbursed on behalf of the Program. Any balance owing from racetracks will be disbursed as stake purse supplements in a future year. Any balance owing to racetracks represents expenses paid that will be reimbursed from operations in the following year. The amounts due from (to) the respective racetracks are as follows:

	2004	2003
	\$	\$
Woodbine Entertainment Group (Woodbine and Mohawk Raceways)	188,460	170,496
Nordic Gaming Corporation (Fort Erie Racetrack)	(171,423)	(186,206)

4. Undesignated Funds

These funds, the balance of funds available from the 1996 Program, were transferred from the Ontario Racing Commission early in 1997. A review to determine the source of the funds was inconclusive, and as such, the funds remain in the Program to cover future cash requirements of the Program as a whole.

5. Breeders' Incentive

These revenues are collected in accordance with the MOU (*note 1*), whereby a portion of the reduction in pari-mutuel taxes is to be allocated to breeders' incentive programs. For the thoroughbred program, 25% of 1% of all wagers are to be allocated to the Thoroughbred Improvement Program. For the standardbred program, 30% of 1% of all wagers are collected and allocated to the Ontario Sires Stakes program. All amounts are payable to the program on a weekly basis and interest is accrued on any unpaid amounts.



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Notes to Financial Statements (continued)

December 31, 2004

6. Slot Revenue

Slot revenue recorded in these financial statements is collected under the direction of the Ontario Harness Horse Association and the Horsemen's Benevolent and Protective Association (collectively, "the Horsemen"). The Horsemen are entitled to 10% of slot revenue collected at Ontario racetracks and a portion of the Horsemen's slot revenue is to be allocated to stake purses. For the thoroughbred program, 8.23% of the 10% of slot revenue is retained by the racetracks and added to their respective stake purses. For the standardbred program, 8.37% of the 10% of slot revenue is collected and forwarded to the Horse Improvement Program for allocation to stake purse supplements in the Ontario Sires Stakes program. The expenditure of slot revenue is included in stake purse supplements in the respective statements of operations and changes in net assets.

7. Other Revenues - Standardbred

The Ontario Sires Stakes and Trillium programs are funded from sources in addition to the wagering levy as follows:

	2004 \$	2003 \$
Nomination fees	239,525	213,007
Sustaining fees	1,960,100	1,764,100
Starting and track fees	1,099,930	1,168,810
Stallion levy	182,350	191,850
	3,481,905	3,337,767

8. Related Party Transactions

Fees of \$50,401 (2003 - \$36,400) and \$200,600 (2003 - \$205,600) for the administration of the thoroughbred and standardbred programs, respectively, were charged during the year by the Ontario Horse Racing Industry Association.

Fees of \$41,730 (2003 - \$40,660) for database services for the standardbred program were charged during the year by Standardbred Canada.

9. Subsequent Event

On February 15, 2005, the Board of OHRIA made the decision to restructure its operations to reflect the realities of industry revenues and to refocus its energies on strategic industry issues. The most significant component of the restructuring is to return administration of the Program to the Ontario Racing Commission. The administrative transfer of the Program is expected to occur by June 2005. There is expected to be no financial impact of the OHRIA restructuring on the Program.