

HORSE IMPROVEMENT PROGRAM

FINANCIAL STATEMENTS

DECEMBER 31, 2008

Hilborn Ellis Grant LLP

Chartered Accountants

Toronto, Ontario





Hilborn Ellis Grant LLP
Chartered Accountants

Auditors' Report

To the Board of
Ontario Racing Commission

We have audited the statement of financial position of **Horse Improvement Program** as at December 31, 2008 and the statements of operations and changes in net assets - Thoroughbred Fund, - Standardbred Fund, - Quarterhorse Fund, - Undesignated Funds and cash flows for the year then ended. These financial statements are the responsibility of the Program'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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Hilborn Ellis Grant LLP

Toronto, Ontario
March 3, 2009

Chartered Accountants
Licensed Public Accountants

HORSE IMPROVEMENT PROGRAM

Statement of Financial Position

December 31, 2008	2008 \$	2007 \$
ASSETS		
Current Assets		
Cash	9,427,945	4,864,062
Accounts receivable	2,113,945	3,180,359
Prepaid expenses	594	11,446
Due from racetracks (note 4)	351,316	169,198
Due from Ontario Harness Horse Association	240,419	257,674
Due from Canadian Thoroughbred Horse Society	-	339,729
Due from Quarter Horse Racing Industry Development Program	-	13,400
	<u>12,134,219</u>	<u>8,835,868</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	4,179,031	2,209,509
Due to racetracks (note 4)	25,408	95,427
Due to Canadian Thoroughbred Horse Society	15,675	-
Due to Quarter Horse Racing Industry Development Program	565,420	-
Deferred nomination fees	223,775	250,175
	<u>5,009,309</u>	<u>2,555,111</u>
NET ASSETS		
Thoroughbred Fund	1,919,636	1,286,240
Standardbred Fund	5,205,274	4,719,023
Quarterhorse Fund	-	275,494
Undesignated Funds	-	-
	<u>7,124,910</u>	<u>6,280,757</u>
	<u>12,134,219</u>	<u>8,835,868</u>

Approved on behalf of the Board:

Commission Chair

Commission Member

HORSE IMPROVEMENT PROGRAM

Statement of Operations and Changes in Net Assets - Thoroughbred Fund

Year ended December 31, 2008	2008 \$	2007 \$
Revenue		
Wagering levy	15,931,235	16,257,330
Breeders' incentive (note 5)	1,513,239	1,514,724
Slot revenue (note 6)	3,578,055	3,488,599
Stallion fees	18,200	16,800
Interest and miscellaneous income	135,920	91,862
	<u>21,176,649</u>	<u>21,369,315</u>
Expenditures		
Purse supplement (note 8)	8,058,244	11,151,061
Stake purse supplement	5,307,500	5,559,750
Ontario bred purse bonus (note 8)	2,909,999	-
Breeders' rewards	3,048,100	3,068,850
Stallion awards	400,000	400,000
Program incentives	330,635	113,785
Equine research	128,585	129,936
Marketing and promotion	163,813	157,724
Administration (note 10)	109,821	91,939
Office and general	1,292	2,583
Professional fees	38,066	25,756
HIP Review (note 11)	47,198	75,681
	<u>20,543,253</u>	<u>20,777,065</u>
Excess of revenue over expenditures for year	633,396	592,250
Net assets, beginning of year	<u>1,286,240</u>	<u>693,990</u>
Net assets, end of year	<u>1,919,636</u>	<u>1,286,240</u>

HORSE IMPROVEMENT PROGRAM

Statement of Operations and Changes in Net Assets - Standardbred Fund

Year ended December 31, 2008	2008 \$	2007 \$
Revenue		
Wagering levy	11,891,607	12,049,179
Breeders' incentive (note 5)	1,480,450	1,510,742
Slot revenue (note 6)	9,841,107	9,413,898
Other (note 7)	3,566,505	3,700,438
Stallion fees	18,000	14,700
Interest and miscellaneous income	293,152	459,110
	<u>27,090,821</u>	<u>27,148,067</u>
Expenditures		
Purse supplement	3,633,384	5,141,634
Stake purse supplement	19,302,925	19,699,788
Breeders' rewards (note 9)	2,762,916	1,335,928
Equine research	91,643	91,978
Marketing and promotion	394,207	387,365
Administration (note 10)	280,895	295,815
Database services (note 10)	50,593	49,948
Bank charges	6,128	5,803
Office and general	9,145	21,364
Professional fees	21,818	19,709
HIP Review (note 11)	50,916	75,681
	<u>26,604,570</u>	<u>27,125,013</u>
Excess of revenue over expenditures for year	486,251	23,054
Net assets, beginning of year	<u>4,719,023</u>	<u>4,695,969</u>
Net assets, end of year	<u>5,205,274</u>	<u>4,719,023</u>

HORSE IMPROVEMENT PROGRAM

Statement of Operations and Changes in Net Assets - Quarterhorse Fund

Year ended December 31, 2008	2008 \$	2007 \$
Revenue		
Wagering levy	<u>289,926</u>	<u>275,494</u>
Excess of revenue over expenditures for year	289,926	275,494
Net assets, beginning of year	275,494	168,084
Transfers to Quarter Horse Racing Industry Development Program	<u>(565,420)</u>	<u>(168,084)</u>
Net assets, end of year	<u>-</u>	<u>275,494</u>

Statement of Operations and Changes in Net Assets - Undesignated Funds

Year ended December 31, 2008	2008 \$	2007 \$
Revenue	<u>-</u>	<u>-</u>
HIP Review (note 11)	<u>-</u>	<u>150,102</u>
Excess of expenditures over revenue for year	-	(150,102)
Net assets, beginning of year	<u>-</u>	<u>150,102</u>
Net assets, end of year	<u>-</u>	<u>-</u>

HORSE IMPROVEMENT PROGRAM

Statement of Cash Flows

Year ended December 31, 2008	2008 \$	2007 \$
Cash flows from operating activities		
Excess of revenue over expenditures for year	1,409,573	740,696
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	1,066,414	(522,577)
Decrease in prepaid expenses	10,852	40,828
Increase in due from racetracks	(182,118)	(133,648)
Decrease (increase) in due from Ontario Harness Horse Association	17,255	(101,184)
Decrease in due from (to) Canadian Thoroughbred Horse Society	355,404	120,071
Decrease (increase) in due from (to) Quarter Horse Racing Industry Development Program	578,820	(13,400)
Increase (decrease) in accounts payable and accrued liabilities	1,969,522	(213,021)
Increase (decrease) in due to racetracks	(70,019)	87,590
Decrease in deferred nomination fees	(26,400)	(27,625)
Transfer to Quarter Horse Racing Industry Development Program	(565,420)	(168,084)
Increase (decrease) in cash during year	4,563,883	(190,354)
Cash, beginning of year	4,864,062	5,054,416
Cash, end of year	9,427,945	4,864,062
	2008 \$	2007 \$
Supplementary Disclosure of Cash Flow Information		
Interest paid	-	-

HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements

December 31, 2008

1. Organization

The objective of the Horse Improvement Program ("Program") is to improve the quality and quantity of racing and breeding stock in Ontario. A Memorandum of Understanding ("MOU") effective September 30, 1996 between the Ontario Ministry of Consumer and Commercial Relations, the Ontario Horse Racing Industry Association ("OHRIA") and the Ontario Racing Commission ("ORC") 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 to the extent that certain horsemen's organizations have agreed to allocate revenues to the Program (*note 6*). Administrative responsibility for the Program was initially delegated to OHRIA under the MOU. Effective May 1, 2005, administrative responsibility for the Program was reassumed by the ORC.

These financial statements pertain only to the activities of the Program that are subject to agreements reached among industry participants. Separate financial statements have been prepared for the ORC and the Quarter Horse Racing Industry Development Program.

2. Significant Accounting Policies and General

a) Significant accounting policies adopted during the year

During the year, the Program adopted new standards recommended in the Canadian Institute of Chartered Accountants (CICA) Handbook on Capital Disclosures, section 1535. Section 1535, Capital Disclosures requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether an entity has complied with any capital requirements and, when it has not complied, the consequences of such non-compliance.

b) 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.

The Quarterhorse fund reports only restricted resources from the wagering levy, which are transferred on an annual basis to the Quarter Horse Racing Industry Development Program ("QHRIDP"). Slot revenues are reported directly by the QHRIDP.

c) 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 in which the wager was made. In accordance with the MOU, purse supplements and equine research expenditures are accrued on the same basis that levy revenue is recognized.

HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2008

2. Significant Accounting Policies and General (continued)

c) Revenue recognition (continued)

The Program also collects slot revenues (*note 6*) and revenues are recognized in the year in which the “net win” is collected by the respective locations. Other revenue collected includes nomination fees, sustaining fees, starting fees, stallion fees and stallion levies. Other revenue is recognized when received and is deferred when registration relates to a future race year.

d) Financial instruments

The Program’s financial instruments consist of all assets and liabilities except prepaid expenses and deferred nomination fees. Unless otherwise noted it is management’s opinion that the Program is not exposed to significant interest, currency or credit risks and the fair values of these instruments approximate their carrying value.

Credit risk arises from the potential that a counter party will fail to perform its obligations. As such, the Program is exposed to credit risk from the tracks and the Ontario Lottery and Gaming Corporation (OLG). However, the Program continuously monitors the tracks and the OLG’s creditworthiness, which minimizes this risk.

e) Management estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

3. Capital Disclosures

The Program has adopted the requirements of CICA Handbook Section 1535 with respect to capital disclosures as follows. The Program’s objectives in managing its capital, which it defines as its net assets, are to maintain a sufficient level to supplement normal operating requirements on an ongoing basis for a minimum period of five years, which reflects the breeding cycle. The Program’s revenue is derived from a levy on wagering, a percentage of slot revenues at racetracks, and certain participant fees as outlined in note 2 c). The Program monitors its capital in order to ensure it has sufficient revenue before committing to expenditures.

HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2008

4. 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 incurred that will be reimbursed in the following year. The amounts due from (to) the respective racetracks are as follows:

	2008	2007
	\$	\$
Woodbine Entertainment Group (Woodbine and Mohawk Raceways)	<u>351,316</u>	<u>169,198</u>
Nordic Gaming Corporation (Fort Erie Racetrack)	<u>(25,408)</u>	<u>(95,427)</u>

5. Breeders' Incentive

These revenues, representing a portion of the reduction in pari-mutuel taxes, are allocated to breeders' incentive programs. For the thoroughbred program, 25% of 1% of all wagers are collected and 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 and Trillium programs. All amounts are payable to the Program on a weekly basis, except tax reductions which are payable on a monthly basis, and interest is accrued on any unpaid amounts.

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.

HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2008

7. Other Revenues - Standardbred

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

	2008	2007
	\$	\$
Nomination fees	208,900	236,473
Sustaining fees	1,701,500	1,882,400
Starting fees	1,497,040	1,434,940
Stallion levy	159,065	146,625
	<u>3,566,505</u>	<u>3,700,438</u>

8. Ontario bred purse bonus - Thoroughbred

The Ontario bred bonus program was established in 2008 and was designed to reward owners for investing in Ontario bred yearlings and racing those horses in Ontario. Funds were made available for this new initiative through a reduction in overnight purse supplements.

9. Breeders rewards - Standardbred

In 2008, an additional Ontario breeders' bonus on Ontario Sires Stakes purses was distributed to breeders who met certain eligibility criteria.

10. Related Party Transactions

Fees of \$87,206 (2007 - \$74,858) and \$236,898 (2007 - \$242,563) for the administration of the thoroughbred and standardbred programs, respectively, were charged during the year by the ORC.

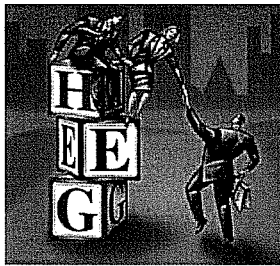
Fees of \$50,593 (2007 - \$49,948) for database services for the standardbred program were charged during the year by Standardbred Canada.

Fees of \$21,500 (2007 - \$16,500) for administration of the thoroughbred program were charged during the year by the Canadian Thoroughbred Horse Society.

These transactions are in the normal course of business and are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

11. HIP Review

During 2007, the Program entered into an agreement for services with regards to recommendations on restructuring the Program. These expenses, along with expenses relating to the implementation of the restructuring, were allocated between the Thoroughbred Fund and the Standardbred Fund.



We give your business a hand to succeed.

Hilborn Ellis Grant LLP
Chartered Accountants
Since 1930

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