

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

FINANCIAL STATEMENTS

DECEMBER 31, 2006

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 **Ontario Racing Commission - Horse Improvement Program** as at December 31, 2006 and the statements of operations and changes in net assets - Thoroughbred Fund, - Standardbred Fund, - Quarterhorse Fund, - Undesignated Funds, - Undistributed Pooling Fund 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, 2006 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
March 9, 2007

Hilborn Ellis Grant LLP

Chartered Accountants
Licensed Public Accountants

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Financial Position

December 31, 2006	2006 \$	2005 \$
ASSETS		
Current Assets		
Cash	5,054,416	5,701,292
Accounts receivable	2,657,782	3,097,844
Prepaid expenses	52,274	37,825
Due from racetracks <i>(note 3)</i>	35,550	-
Due from Ontario Harness Horse Association	156,490	246,080
Due from Canadian Thoroughbred Horse Society	459,800	435,386
	<u>8,416,312</u>	<u>9,518,427</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,422,530	3,795,639
Due to racetracks <i>(note 3)</i>	7,837	162,619
Deferred nomination fees	277,800	276,175
	<u>2,708,167</u>	<u>4,234,433</u>
NET ASSETS		
Thoroughbred Fund	693,990	26,127
Standardbred Fund	4,695,969	5,107,765
Quarterhorse Fund	168,084	-
Undesignated Funds <i>(note 4)</i>	150,102	150,102
Undistributed Pooling Fund	-	-
	<u>5,708,145</u>	<u>5,283,994</u>
	<u>8,416,312</u>	<u>9,518,427</u>

Approved on behalf of the Board:

Commission Chair

Commission Member

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Operations and Changes in Net Assets - Thoroughbred Fund

Year ended December 31, 2006	2006 \$	2005 \$
Revenue		
Wagering levy	15,134,053	15,004,967
Breeders' incentive (note 5)	1,397,295	1,358,243
Slot revenue (note 6)	3,475,126	3,536,605
Stallion fees	11,400	11,000
Interest and miscellaneous income	66,780	31,236
	<u>20,084,654</u>	<u>19,942,051</u>
Expenditures		
Purse supplement (note 8)	10,378,227	10,391,724
Stake purse supplement	5,491,500	6,091,600
Breeders' awards	2,608,323	2,593,870
Stallion awards	400,000	400,000
Other programs (note 9)	121,012	50,000
Equine research	119,563	116,620
Marketing and promotion	175,169	248,846
Administration (note 10)	86,008	49,384
Office and general	1,106	4,649
Professional fees	35,883	40,689
	<u>19,416,791</u>	<u>19,987,382</u>
Excess of revenue over expenditures (expenditures over revenue) for year	667,863	(45,331)
Net assets, beginning of year	<u>26,127</u>	71,458
Net assets, end of year	<u><u>693,990</u></u>	<u>26,127</u>

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Operations and Changes in Net Assets - Standardbred Fund

Year ended December 31, 2006	2006 \$	2005 \$
Revenue		
Wagering levy	13,694,397	14,655,143
Breeders' incentive (note 5)	1,712,062	1,731,675
Slot revenue (note 6)	9,074,290	8,761,694
Other (note 7)	3,399,675	3,458,179
Stallion fees	19,700	20,000
Interest and miscellaneous income	350,820	253,623
	<u>28,250,944</u>	<u>28,880,314</u>
Expenditures		
Purse supplement	6,730,753	7,345,946
Stake purse supplement	19,679,405	19,791,615
Breeders' awards	1,365,568	1,405,696
Equine research	102,856	108,779
Marketing and promotion	407,421	428,398
Administration (note 10)	272,721	240,292
Database services (note 10)	48,817	45,388
Bank charges	6,022	5,981
Office and general	14,149	32,515
Professional fees	35,028	36,249
	<u>28,662,740</u>	<u>29,440,859</u>
Excess of expenditures over revenue for year	(411,796)	(560,545)
Net assets, beginning of year	<u>5,107,765</u>	<u>5,668,310</u>
Net assets, end of year	<u>4,695,969</u>	<u>5,107,765</u>

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Operations and Changes in Net Assets - Quarterhorse Fund

Year ended December 31, 2006	2006 \$	2005 \$
Revenue		
Wagering Levy	<u>168,084</u>	6,753
Expenditures		
Purse Supplement	<u>-</u>	6,753
Excess of revenue over expenditures for year	168,084	-
Net assets, beginning of year	<u>-</u>	-
Net assets, end of year	<u><u>168,084</u></u>	<u>-</u>

Statement of Operations and Changes in Net Assets - Undesignated Funds

Year ended December 31, 2006	2006 \$	2005 \$
Revenue	<u>-</u>	-
Expenditures	<u>-</u>	-
Excess of revenue over expenditures for year	-	-
Net assets, beginning of year	<u>150,102</u>	150,102
Net assets, end of year	<u><u>150,102</u></u>	<u>150,102</u>

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

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

Year ended December 31, 2006	2006 \$	2005 \$
Revenue	-	-
Expenditures		
Distributions	-	60,136
Excess of expenditures over revenue for year	-	(60,136)
Net assets, beginning of year	-	60,136
Net assets, end of year	-	-

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Cash Flows

Year ended December 31, 2006	2006 \$	2005 \$
Cash flows from operating activities		
Excess of revenue over expenditures (expenditures over revenue) for year	424,151	(666,012)
Changes in non-cash working capital		
Decrease in accounts receivable	440,062	841,855
Increase in prepaid expenses	(14,449)	(17,870)
Decrease (increase) in due from racetracks	(35,550)	188,460
Decrease (increase) in due from Ontario Harness Horse Association	89,590	(122,826)
Decrease (increase) in due from Canadian Thoroughbred Horse Society	(24,414)	62,533
Increase (decrease) in accounts payable and accrued liabilities	(1,373,109)	1,101,030
Decrease in due to racetracks	(154,782)	(8,804)
Increase (decrease) in deferred nomination fees	1,625	(2,850)
Increase (decrease) in cash during year	(646,876)	1,375,516
Cash, beginning of year	5,701,292	4,325,776
Cash, end of year	5,054,416	5,701,292
	2006 \$	2005 \$
Supplementary Disclosure of Cash Flow Information		
Interest paid	-	-

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements

December 31, 2006

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 of 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) 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, which is conducted through the Ontario Sires Stakes.

The Quarterhorse Fund reports only restricted resources from the wagering levy, which are anticipated to be transferred to the Quarter Horse Racing Industry Development Program.

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 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.

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.

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2006

2. Significant Accounting Policies and General (continued)

c) 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.

d) 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. 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:

	2006 \$	2005 \$
Nordic Gaming Corporation (Fort Erie Racetrack)	35,550	-
Woodbine Entertainment Group (Woodbine and Mohawk Raceways)	(7,837)	(125,805)
Nordic Gaming Corporation (Fort Erie Racetrack)	-	(36,814)
	<u>(7,837)</u>	<u>(162,619)</u>

4. Undesignated Funds

These funds represent the balance of funds available from the 1996 Program. 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, 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 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 and Trillium programs. All amounts are payable to the program on a weekly basis and interest is accrued on any unpaid amounts.

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Notes to Financial Statements (continued)

December 31, 2006

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:

	2006 \$	2005 \$
Nomination fees	237,525	240,949
Sustaining fees	1,861,400	1,882,900
Starting fees	1,134,800	1,138,230
Stallion levy	165,950	196,100
	<u>3,399,675</u>	<u>3,458,179</u>

8. Purse Supplement – Thoroughbred

During the year, \$72,364 from the overnight purse supplement was used to offset budget overruns in the stake purse supplement and other programs.

9. Other Programs - Thoroughbred

	2006 \$	2005 \$
Trainers' bonuses	60,000	50,000
Sales credits	61,012	-
	<u>121,012</u>	<u>50,000</u>

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Notes to Financial Statements (continued)

December 31, 2006

10. Related Party Transactions

Fees of \$nil (2005 - \$6,482) and \$nil (2005 - \$69,056) for the administration of the thoroughbred and standardbred programs, respectively, were charged during the year by the OHRIA. The OHRIA ceased administration of the Program on April 30, 2005.

Fees of \$86,008 (2005 - \$42,902) and \$215,998 (2005 - \$111,862) for the administration of the thoroughbred and standardbred programs, respectively, were charged during the year by the ORC. The ORC commenced administration of the Program on May 1, 2005, therefore comparative figures represent eight months of charges.

Fees of \$48,817 (2005 - \$45,388) for database services for the standardbred program were charged during the year by Standardbred Canada.

11. Commitments - Standardbred

The Program is committed under an agreement for media communication services until December 31, 2007. Annual payments under this agreement are \$145,000 and the Program has the exclusive option to extend this agreement until December 31, 2009 under the same terms.



Hilborn Ellis Grant LLP
Chartered Accountants

Auditors' Report

To the Board of
Ontario Racing Commission

The financial statements of **Ontario Racing Commission - Horse Improvement Program** ("Program") and our report thereon are presented in the preceding section of this report. The information presented hereinafter is for purposes of additional analysis and is not required for the fair presentation of the financial position of the Program as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. Such information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Toronto, Ontario
March 9, 2007

Hilborn Ellis Grant LLP

Chartered Accountants
Licensed Public Accountants



ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Continuity of Net Assets - Thoroughbred Fund

Years ended December 31, 2005 and 2006

	Levy	Stakes WEG	Stakes Fort Erie	Tax Reduction CTHS	M&P CTHS	Total	Net Assets
Closing Net Assets, Dec. 31, 2004	(443,498)	188,460	(171,423)	497,919	-	-	71,458
2005 Transactions							
Inflows							
Collected from wagering	15,004,967	-	-	1,358,243	-	16,363,210	
Collected from slot net-win	-	2,811,784	724,821	-	-	3,536,605	
Stallion fees - net	(1,900)	-	-	12,900	-	11,000	
Interest income	46,652	(20,195)	972	3,807	-	31,236	
Total Inflows							19,942,051
Transfers							
HIP provided to CTHS for breeders' awards	(1,305,000)	-	-	1,305,000	-	-	
HIP provided to CTHS for stallion awards	(400,000)	-	-	400,000	-	-	
HIP provided to CTHS for M&P	(100,000)	-	-	-	100,000	-	
HIP provided to tracks for stake purses	(2,394,562)	2,112,546	282,016	-	-	-	
Timing differences from CTHS audited F/S	(233)	-	-	233	-	-	
Transfers by CTHS between funds	-	-	-	(148,846)	148,846	-	
HIP provided to tracks for other programs	(50,000)	50,000	-	-	-	-	
Outflows							
Purses	(10,391,724)	-	-	-	-	(10,391,724)	
Stake purses	-	(5,218,400)	(873,200)	-	-	(6,091,600)	
Breeders' awards	-	-	-	(2,593,870)	-	(2,593,870)	
Stallion awards	-	-	-	(400,000)	-	(400,000)	
Other programs	-	(50,000)	-	-	-	(50,000)	
Equine research	(116,620)	-	-	-	-	(116,620)	
General expenses	(94,722)	-	-	-	(248,846)	(343,568)	
Total Outflows							(19,987,382)
Closing Net Assets, Dec. 31, 2005	(246,640)	(125,805)	(36,814)	435,386	-	-	26,127
2006 Transactions							
Inflows							
Collected from wagering	15,134,053	-	-	1,397,295	-	16,531,348	
Collected from slot net-win	-	2,905,405	569,721	-	-	3,475,126	
Stallion fees - net	11,600	-	-	(200)	-	11,400	
Interest income	42,917	20,933	-	2,930	-	66,780	
Total Inflows							20,084,654
Transfers							
HIP provided to CTHS for breeders' awards	(1,490,800)	-	-	1,490,800	-	-	
HIP provided to CTHS for stallion awards	(400,000)	-	-	400,000	-	-	
HIP provided to CTHS for other programs	(120,262)	-	-	120,262	-	-	
HIP provided to tracks for stake purses	(2,122,671)	1,889,130	47,643	185,898	-	-	
Timing differences from CTHS audited F/S	19,067	-	-	(19,077)	10	-	
Transfers by CTHS between funds	-	-	-	(175,159)	175,159	-	
Outflows							
Purses	(10,378,227)	-	-	-	-	(10,378,227)	
Stake purses	-	(4,697,500)	(545,000)	(249,000)	-	(5,491,500)	
Breeders' awards	-	-	-	(2,608,323)	-	(2,608,323)	
Stallion awards	-	-	-	(400,000)	-	(400,000)	
Other programs	-	-	-	(121,012)	-	(121,012)	
Equine research	(119,563)	-	-	-	-	(119,563)	
General expenses	(122,997)	-	-	-	(175,169)	(298,166)	
Total Outflows							(19,416,791)
Closing Net Assets, Dec. 31, 2006	206,477	(7,837)	35,550	459,800	-	-	693,990

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Continuity of Net Assets - Standardbred Fund

Years ended December 31, 2005 and 2006

	Levy	Slots	Tax Reduction OHHA	OSS	Total	Net Assets
Closing Net Assets, Dec. 31, 2004	5,545,056	-	123,254	-	-	5,668,310
2005 Transactions						
Inflows						
Collected from wagering and slots	14,655,143	8,761,694	1,731,675	-	25,148,512	
Sustaining and nomination fees	-	-	-	3,458,179	3,458,179	
Stallion fees	20,000	-	-	-	20,000	
Interest income	253,623	-	-	-	253,623	
Total Inflows						28,880,314
Transfers (based on budgets and financial plans)						
Tax reduction provided to OSS program	-	-	(1,608,849)	1,608,849	-	
HIP amounts provided to OSS program	(7,368,589)	(8,761,694)	-	16,130,283	-	
Outflows						
Purses	(7,345,946)	-	-	(19,791,615)	(27,137,561)	
Breeders' awards	-	-	-	(1,405,696)	(1,405,696)	
Equine research	(108,779)	-	-	-	(108,779)	
General expenses	(788,823)	-	-	-	(788,823)	
Total Outflows						(29,440,859)
Closing Net Assets, Dec. 31, 2005	4,861,685	-	246,080	-		5,107,765
2006 Transactions						
Inflows						
Collected from wagering and slots	13,694,397	9,074,290	1,712,062	-	24,480,749	
Sustaining and nomination fees	-	-	-	3,399,675	3,399,675	
Stallion fees	19,700	-	-	-	19,700	
Interest income	350,820	-	-	-	350,820	
Total Inflows						28,250,944
Transfers (based on budgets and financial plans)						
Tax reduction provided to OSS program	-	-	(1,801,652)	1,801,652	-	
HIP amounts provided to OSS program	(6,769,356)	(9,074,290)	-	15,843,646	-	
Outflows						
Purses	(6,730,753)	-	-	(19,679,405)	(26,410,158)	
Breeders' awards	-	-	-	(1,365,568)	(1,365,568)	
Equine research	(102,856)	-	-	-	(102,856)	
General expenses	(784,158)	-	-	-	(784,158)	
Total Outflows						(28,662,740)
Closing Net Assets, Dec. 31, 2006	4,539,479	-	156,490	-		4,695,969

