

**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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, 2007 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, 2007 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 7, 2008

Chartered Accountants
Licensed Public Accountants



**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Financial Position

December 31, 2007	2007	2006
	\$	\$
ASSETS		
Current Assets		
Cash	4,864,062	5,054,416
Accounts receivable	3,180,359	2,657,782
Prepaid expenses	11,446	52,274
Due from racetracks <i>(note 3)</i>	169,198	35,550
Due from Ontario Harness Horse Association	257,674	156,490
Due from Canadian Thoroughbred Horse Society	339,729	459,800
Due from Quarter Horse Racing Industry Development Program	13,400	-
	<u>8,835,868</u>	<u>8,416,312</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,209,509	2,422,530
Due to racetracks <i>(note 3)</i>	95,427	7,837
Deferred nomination fees	250,175	277,800
	<u>2,555,111</u>	<u>2,708,167</u>
NET ASSETS		
Thoroughbred Fund	1,286,240	693,990
Standardbred Fund	4,719,023	4,695,969
Quarterhorse Fund	275,494	168,084
Undesignated Funds <i>(note 4)</i>	-	150,102
	<u>6,280,757</u>	<u>5,708,145</u>
	<u>8,835,868</u>	<u>8,416,312</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, 2007	2007	2006
	\$	\$
Revenue		
Wagering levy	16,257,330	15,134,053
Breeders' incentive (note 5)	1,514,724	1,397,295
Slot revenue (note 6)	3,488,599	3,475,126
Stallion fees	16,800	11,400
Interest and miscellaneous income	91,862	66,780
	<u>21,369,315</u>	<u>20,084,654</u>
Expenditures		
Purse supplement (note 8)	11,151,061	10,378,227
Stake purse supplement	5,559,750	5,491,500
Breeders' awards	3,068,850	2,608,323
Stallion awards	400,000	400,000
Sales credits	113,785	121,012
Equine research	129,936	119,563
Marketing and promotion	157,724	175,169
Administration (note 9)	91,939	86,008
Office and general	2,583	1,106
Professional fees	25,756	35,883
HIP Review (note 10)	75,681	-
	<u>20,777,065</u>	<u>19,416,791</u>
Excess of revenue over expenditures for year	592,250	667,863
Net assets, beginning of year	<u>693,990</u>	<u>26,127</u>
Net assets, end of year	<u><u>1,286,240</u></u>	<u><u>693,990</u></u>



**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Operations and Changes in Net Assets - Standardbred Fund

Year ended December 31, 2007	2007	2006
	\$	\$
Revenue		
Wagering levy	12,049,179	13,694,397
Breeders' incentive (note 5)	1,510,742	1,712,062
Slot revenue (note 6)	9,413,898	9,074,290
Other (note 7)	3,700,438	3,399,675
Stallion fees	14,700	19,700
Interest and miscellaneous income	459,110	350,820
	<u>27,148,067</u>	<u>28,250,944</u>
Expenditures		
Purse supplement	5,141,634	6,730,753
Stake purse supplement	19,699,788	19,679,405
Breeders' awards	1,335,928	1,365,568
Equine research	91,978	102,856
Marketing and promotion	387,365	407,421
Administration (note 9)	295,815	272,721
Database services (note 9)	49,948	48,817
Bank charges	5,803	6,022
Office and general	21,364	14,149
Professional fees	19,709	35,028
HIP Review (note 10)	75,681	-
	<u>27,125,013</u>	<u>28,662,740</u>
Excess of revenue over expenditures (expenditures over revenue) for year	23,054	(411,796)
Net assets, beginning of year	<u>4,695,969</u>	<u>5,107,765</u>
Net assets, end of year	<u><u>4,719,023</u></u>	<u><u>4,695,969</u></u>



**ONTARIO RACING COMMISSION
HORSE IMPROVEMENT PROGRAM**

Statement of Operations and Changes in Net Assets - Quarterhorse Fund

Year ended December 31, 2007	2007 \$	2006 \$
Revenue		
Wagering levy	275,494	168,084
HIP Review (note 10)	-	-
Excess of revenue over expenditures for year	275,494	168,084
Net assets, beginning of year	168,084	-
Transfers to Quarter Horse Racing Industry Development Program	(168,084)	-
Net assets, end of year	275,494	168,084

Statement of Operations and Changes in Net Assets - Undesignated Funds

Year ended December 31, 2007	2007 \$	2006 \$
Revenue	-	-
HIP Review (note 10)	150,102	-
Excess of expenditures over revenue for year	(150,102)	-
Net assets, beginning of year	150,102	150,102
Net assets, end of year	-	150,102



ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Statement of Cash Flows

Year ended December 31, 2007	2007	2006
	\$	\$
Cash flows from operating activities		
Excess of revenue over expenditures for year	740,696	424,151
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	(522,577)	440,062
Decrease (increase) in prepaid expenses	40,828	(14,449)
Increase in due from racetracks	(133,648)	(35,550)
Decrease (increase) in due from Ontario Harness Horse Association	(101,184)	89,590
Decrease (increase) in due from Canadian Thoroughbred Horse Society	120,071	(24,414)
Increase in due from Quarter Horse Racing Industry Development Program	(13,400)	-
Decrease in accounts payable and accrued liabilities	(213,021)	(1,373,109)
Increase (Decrease) in due to racetracks	87,590	(154,782)
Increase (decrease) in deferred nomination fees	(27,625)	1,625
Transfer to Quarter Horse Racing Industry Development Program	(168,084)	-
Decrease in cash during year	(190,354)	(646,876)
Cash, beginning of year	5,054,416	5,701,292
Cash, end of year	4,864,062	5,054,416

	2007	2006
	\$	\$
Supplementary Disclosure of Cash Flow Information		
Interest paid	-	-



ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements

December 31, 2007

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) 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 accounting changes, Section 1506.

Section 1506, Accounting Changes, aims to improve the relevance, reliability and comparability of financial statements over time and to those of other entities by establishing criteria for accounting changes and related disclosures. The standard also requires that an entity set out disclosure about new primary sources of Canadian generally accepted accounting principles that have been issued but are not yet effective (*note 13*). The Program adopted the standard for the fiscal year ended December 31, 2007.

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, which is conducted through the Ontario Sires Stakes.

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.

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.

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2007

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.

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. 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:

	2007	2006
	\$	\$
Woodbine Entertainment Group (Woodbine and Mohawk Raceways)	169,198	-
Nordic Gaming Corporation (Fort Erie Racetrack)	-	35,550
	<u>169,198</u>	<u>35,550</u>
Woodbine Entertainment Group (Woodbine and Mohawk Raceways)	-	(7,837)
Nordic Gaming Corporation (Fort Erie Racetrack)	(95,427)	-
	<u>(95,427)</u>	<u>(7,837)</u>

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2007

4. Undesignated Funds

These funds represented 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 remained in the Program to cover future cash requirements of the Program as a whole. During the year these funds were used to supplement the costs associated with the review of the Program undertaken in 2007.

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.

7. Other Revenues - Standardbred

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

	2007	2006
	\$	\$
Nomination fees	236,473	237,525
Sustaining fees	1,882,400	1,861,400
Starting fees	1,434,940	1,134,800
Stallion levy	146,625	165,950
	<u>3,700,438</u>	<u>3,399,675</u>

8. Purse Supplement – Thoroughbred

During the year, \$nil (2006 - \$72,364) from the overnight purse supplement was used to offset budget overruns in the stake purse supplement and other programs.

ONTARIO RACING COMMISSION HORSE IMPROVEMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2007

9. Related Party Transactions

Fees of \$74,858 (2006 - \$86,008) and \$242,563 (2006 - \$215,998) for the administration of the thoroughbred and standardbred programs, respectively, were charged during the year by the ORC.

Fees of \$49,948 (2006 - \$48,817) for database services for the standardbred program were charged during the year by Standardbred Canada.

Fees of \$16,500 (2006 - nil) 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.

10. HIP Review

During the year the Program entered into an agreement for services with regards to recommendations on restructuring the Program. These expenses were first allocated to Undesignated Funds (note 4) with the remainder split between the Thoroughbred Fund and the Standardbred Fund.

11. Commitments - Standardbred

The Program is committed under an agreement for media communication services until December 31, 2008. Annual payments under this agreement are \$145,000.

12. Subsequent Event

At its February 2008 meeting, the Board of the Ontario Racing Commission approved a number of changes to the Horse Improvement Program, which will be implemented during the 2008 season. These changes include the reallocation of a portion of existing program funds to encourage the Ontario breeding industry.

13. Future Accounting Changes

The following summarizes future accounting changes that will be relevant to the Program's financial statements subsequent to the current year. The impact of the new standards is being evaluated by the Program.

Capital Disclosures

The CICA has issued a new accounting standard that establishes requirements for capital disclosures, which will be effective for the Program commencing January 1, 2008 and 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 consequences of non-compliance with such capital requirements.

