

**QUARTER HORSE RACING INDUSTRY
DEVELOPMENT 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 **Quarter Horse Racing Industry Development Program** as at December 31, 2008 and the statements of operations and changes in net assets 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

QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Statement of Financial Position

December 31	2008 \$	2007 \$
ASSETS		
Current assets		
Cash	16,419,565	11,337,648
Accounts receivable	124,669	287,392
Due from Horse Improvement Program	565,420	-
Due from Ajax Downs Purse Account (note 3)	-	204,652
	<u>17,109,654</u>	<u>11,829,692</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	106,805	76,354
Due to Ontario Racing Commission	-	50,918
Due to Horse Improvement Program	-	13,400
Due to Ajax Downs Purse Account (note 3)	2,743	-
Provision for refund of revenues (note 4)	4,469,267	-
	<u>4,578,815</u>	<u>140,672</u>
NET ASSETS	<u>12,530,839</u>	<u>11,689,020</u>
	<u>17,109,654</u>	<u>11,829,692</u>

Approved on behalf of the Board:

Commission Chair

Commission Member

QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Statement of Operations

Year ended December 31	2008 \$	2007 \$
Revenues		
Slot revenue	8,239,193	9,788,351
Interest income	407,232	342,171
	<u>8,646,425</u>	<u>10,130,522</u>
Expenditures		
Purse supplement	2,131,955	1,466,036
Residency bonus	539,600	435,312
Ontario bred bonus	349,718	-
Stake purses	740,000	515,000
Stakes breeder and stallion bonuses	45,000	37,500
Breeders' awards	400,000	349,624
First time starter awards	48,000	37,000
Stallion awards	40,000	35,000
Guaranteed starter awards	44,000	37,000
Equine research	35,000	35,000
Administration funding to Quarter Racing Owners of Ontario, Inc.	175,822	81,113
Medication control	6,888	37,503
Participants' insurance	41,652	-
Administration (note 6)	407,054	177,987
Slot revenue overpayment (note 4)	3,365,337	-
	<u>8,370,026</u>	<u>3,244,075</u>
Excess of revenues over expenditures for year	<u>276,399</u>	<u>6,886,447</u>

Statement of Changes in Net Assets

Year ended December 31	2008 \$	2007 \$
Net assets, beginning of year	11,689,020	4,634,489
Excess of revenues over expenditures for year	276,399	6,886,447
Transfer from the Horse Improvement Program (note 7)	565,420	168,084
Net assets, end of year	<u>12,530,839</u>	<u>11,689,020</u>

QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Notes to Financial Statements

December 31, 2008

1. **Organization**

The objective of the Quarter Horse Racing Industry Development Program ("Program") is to support development of a strong and sustainable Quarter Horse racing industry in Ontario. Specifically, the Program's main objectives are to achieve measured, balanced growth for the sector and to improve the quantity and quality of Ontario-bred racing stock active in Quarter Horse racing in Ontario. The Program was established during 2005 with revenues and disbursements beginning in calendar 2006. The Site Holder Agreement for Ajax Downs between Picov Downs Inc. and the Ontario Lottery and Gaming Corporation ("OLG") names the Ontario Racing Commission ("ORC") to receive the industry share of the Slots Program fund, and to develop programs to benefit the Quarter Horse Industry and the horse racing industry generally. The Program has been developed in cooperation with the industry and has been approved by the ORC.

These financial statements pertain only to the activities of the Program and do not include the assets, liabilities, revenues or expenses of the ORC or any other program for which it has administrative responsibility. Separate financial statements have been prepared for the ORC and each respective program it administers.

2. **Significant accounting policies**

(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) **Revenue recognition**

The Program is entitled to receive a portion of slot revenue collected from slot machines at Ajax Downs for the purposes of planning and directing the use of the funds for the benefit of the industry. The terms of the Site Holder Agreement states that the Program will receive a portion of the "net win". The amount is paid by the OLG to the Program on a weekly basis. The Program follows accrual accounting and slot revenues are recognized in the year in which the "net win" is earned by the OLG.

(c) **Financial instruments**

The carrying amount of the Program's financial instruments, consisting of all assets and liabilities, approximate their fair value unless otherwise noted.

It is management's opinion that, unless otherwise noted, the Program is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2008

2. Significant accounting policies (continued)

(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 period. Actual results could differ from those estimates.

3. Due to / from Ajax Downs Purse Account

These amounts represent the balance of funds that are collected and disbursed on behalf of the Program. Any balances owing from Ajax Downs Purse Account will be disbursed as future purse supplements and residency bonuses. Any balance owing to Ajax Downs Purse Account represent purses paid that will be reimbursed in the following year.

4. Provision for refund of revenues

The Program receives a portion of slot revenues collected from slot machines at Ajax Downs. The OLG, in reviewing its Site Holder Agreement as described in note 1, has noted that there are more slot machines in operation than the originally agreed upon number. The OLG is seeking repayment of some of the slot revenues for 2006, 2007 and 2008. The Program and the OLG have calculated the disputed slot revenues as \$1,407,667, \$1,957,670 and \$1,103,930 for the years 2006, 2007 and 2008 respectively, and have accrued these amounts in the current year financial statements.

5. Capital disclosure

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 percentage of slot revenues at Ajax Downs. The Program monitors its capital in order to ensure it has sufficient revenue before committing to expenditures.



QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Notes to Financial Statements (continued)

December 31, 2008

6. Administration expenditures

	2008	2007
	\$	\$
Consulting	168,015	54,173
Audit	9,525	13,357
Administrative fees paid to the ORC	82,340	81,340
Marketing and promotion	78,337	12,864
Meetings, printing and other administration	56,500	12,878
Honorariums for Working Groups	12,337	3,375
	<u>407,054</u>	<u>177,987</u>

7. Transfer from the Horse Improvement Program

The amounts transferred from the Horse Improvement Program are collected by the Horse Improvement Program from the wagering levy and are transferred annually. The funds arise from a levy of two percent on all wagers plus an additional two percent on triactors on wagers at Ajax Downs during the year for the purpose of funding the Program.

8. Statement of cash flows

A statement of cash flows has not been presented, as the information is readily apparent.

