Grant Thornton

Financial statements

Standardbred Canada
(Incorporated under the Animal Pedigree Act)

October 31, 2019

Contents

Independent auditor's report

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To the Members of Standardbred Canada

Opinion

We have audited the financial statements of Standardbred Canada (the “Association”), which comprise the statement of financial position as at October 31, 2019, and the statement of operation, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Standardbred Canada as at October 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with ASNPO, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLP

Mississauga, Canada
January 31, 2020

Chartered Professional Accountants
Licensed Public Accountants

Standardbred Canada
Statement of operations

For the year ended October 31	**2019**	2018
Revenue		
Trot magazine	**$ 912,845**	$ 971,709
Computer services	**858,028**	908,380
Membership services	**811,188**	786,098
Track fees	**676,505**	681,087
Membership dues and licensing fees	**651,749**	598,852
Identification	**224,292**	253,040
Horse sales and pedigree sales	**145,552**	456,091
Stake and administrative services	**112,120**	114,633
Rent	**93,621**	88,458
Investment income	**41,170**	13,596
Miscellaneous income	**23,139**	56,821
	4,550,209	4,928,765
Expenses		
Information technology	**1,491,845**	1,306,423
General and administrative	**870,077**	851,904
Customer services	**784,037**	798,029
Trot magazine	**633,661**	672,373
Occupancy costs	**294,386**	300,487
Industry marketing and business development	**292,767**	357,697
Identification	**210,712**	230,438
Member insurance	**164,356**	180,963
Travel and meetings	**66,323**	74,360
Sales and stakes	**40,584**	48,256
Horse sales	**33,535**	374,459
Industry and government relations	**2,919**	7,808
	4,885,202	5,203,197
Deficiency of revenue over expenses	**$ (334,993)**	$ (274,432)

See accompanying notes to the financial statements.

Standardbred Canada

Statement of changes in net assets

For the year ended October 31

				2019	2018
	Unrestricted	Invested in property and equipment and software	Internally restricted	**Total**	Total
Net assets - beginning of year	$ 1,122,585	$ 2,922,993	$ 300,000	**$ 4,345,578**	$ 4,620,010
Excess (deficiency) of revenue over expenses	49,328	(384,321)	-	**(334,993)**	(274,432)
Transfer for purchase of capital and intangible assets	(203,867)	203,867	-	**-**	-
Net assets - end of year	$ 968,046	$ 2,742,539	$ 300,000	**$ 4,010,585**	$ 4,345,578

See accompanying notes to the financial statements.

Standardbred Canada
Statement of financial position

October 31		**2019**		2018
Assets				
Current				
Cash and cash equivalents	**$**	**709,972**	$	918,984
Investments (Note 3)		**817,024**		793,196
Receivables		**611,339**		1,243,032
Supplies and prepaid expenses		**99,438**		99,547
		2,237,773		3,054,759
Tangible capital assets (Note 4)		**1,414,908**		1,514,498
Intangible assets (Note 5)		**1,327,631**		1,408,495
	$	**4,980,312**	$	5,977,752
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 6)	**$**	**282,438**	$	999,153
Stake programs		**200,083**		171,722
Deferred revenue		**136,224**		129,251
Deferred membership revenue		**350,982**		332,048
		969,727		1,632,174
Net assets				
Unrestricted		**968,046**		1,122,585
Invested in property and equipment and software		**2,742,539**		2,922,993
Internally restricted - reserve for computer replacement		**300,000**		300,000
		4,010,585		4,345,578
	$	**4,980,312**	$	5,977,752

On behalf of the Board of Directors

____________________________ Director ____________________________ Director

See accompanying notes to the financial statements.

Standardbred Canada

Statement of cash flows

For the year ended October 31		**2019**		2018
Increase (decrease) in cash and cash equivalents				
Operating activities				
Deficiency of revenue over expenses	**$**	**(334,993)**	$	(274,432)
Items not involving cash				
Unrealized gains on investments		**9,830**		41,465
Amortization – tangible capital assets		**112,222**		117,482
Amortization – intangible assets		**272,098**		212,307
Net change in non-cash operating working capital				
Receivables		**631,693**		1,183,092
Supplies and prepaid expenses		**109**		(1,975)
Accounts payable and accrued liabilities		**(716,713)**		(471,132)
Due to consignors		**-**		(6,044,572)
Stake programs		**28,361**		10,106
Deferred revenue		**6,973**		(7,693)
Deferred membership revenue		**18,934**		(2,132)
		28,514		(5,237,484)
Investing activities				
Change in investments (net)		**(33,659)**		473,045
Purchase of tangible capital assets		**(12,632)**		(32,755)
Purchase and development of intangible capital assets		**(191,235)**		(244,707)
		(237,526)		195,583
Decrease in cash and cash equivalents		**(209,012)**		(5,041,901)
Cash and cash equivalents, beginning of year		**918,984**		5,960,885
Cash and cash equivalents, end of year	**$**	**709,972**	$	918,984

See accompanying notes to the financial statements.

1. Nature of operations

Standardbred Canada ("the Association") was incorporated under the Animal Pedigree Act to be the official registry and recordkeeping body and a national leader that informs, inspires, drives and records information on standardbred racing and breeding for the standardbred industry in Canada.

Standardbred Canada promotes and protects the standardbred breed and the persons who own, breed or race standardbred horses through:

a) The registration and identification of standardbred horses and the keeping of pedigrees;
b) The maintenance, preservation and dissemination of records regarding the breeding and racing of standardbred horses; and
c) The promotion of harness racing and standardbred horses.

The Association is a not-for-profit organization and is exempt from income taxes under section 149(1) of the Income Tax Act.

2. Summary of significant accounting policies

The Association follows accounting policies that conform to Canadian accounting standards for not-for-profit organizations. The following is a summary of significant accounting policies adopted by the Association in the preparation of the financial statements.

Revenue recognition

Membership fees are recorded as revenue of the fiscal year to which they relate. Deferred revenue represents membership fees which have been received but not earned. The membership year is coincidental with the member's birth date.

Horse sales represent commission and entry fees earned by the Association on the sale of standardbred horses. The Association is an agent for these sales and does not act as principal. In its role as agent, the Association collects proceeds from the sales and remits net proceeds to the consignor.

Investment income comprises interest, dividends, and realized and unrealized gains (losses).

Other revenues are recognized when services have been performed, amounts can be reasonably estimated, and collection is reasonably assured.

Financial instruments – recognition and measurement

Initial measurement

The Association's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Financing fees and transaction costs relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

2. Summary of significant accounting policies (continued)

Financial instruments – recognition and measurement (continued)

Subsequent measurement

At each reporting date, the Association measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities, which consist of equities quoted in an active market and must be measured at fair value, and stake programs liabilities, which the Association has designated to measure at fair value. The Association uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees to the statement of operations. The financial instruments measured at amortized cost are cash and cash equivalents, investments in guaranteed investment certificates and treasury bills, receivables, accounts payable, due to consignors, and stake programs.

For financial assets measured at cost or amortized cost, the Association regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Association determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, the Association recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term investments which are readily convertible to cash and have maturity dates three months or less from the date of acquisition.

Tangible and intangible capital assets and amortization

Tangible capital assets are stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of tangible capital assets, on a straight-line basis over the estimated useful lives, as follows:

Building	40 years
Building improvements	10 years
Computer equipment	3 years
Vehicles	5 years
Other equipment	3 to 10 years
Leasehold improvements	5 years

2. Summary of significant accounting policies (continued)

Tangible and intangible capital assets and amortization (continued)

Intangible assets are stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of intangible capital assets, on a straight-line basis over the estimated useful life of the asset, as follows:

Purchased software	3 years
Internally generated software	7 years

The Association has chosen to capitalize software development costs that meet the criteria for capitalization as an internally generated intangible asset. Capitalization of software under development will cease when the software is substantially complete and available for use. Amortization will commence upon initial utilization of the software.

When a capital asset no longer has any long-term service potential to the Association, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any write-downs recognized are not reversed.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated at the exchange rate in effect on the date of each transaction. Foreign currency gains or losses are included in the determination of the excess (deficiency) of revenue over expenses for the year.

Estimates and measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Items requiring significant estimates and subject to measurement uncertainty include determination of the allowance for doubtful accounts receivable, and the useful lives and impairment of tangible and intangible assets. By their nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the statement of operations in the period in which they become known.

3. Investments

Short-term investments consist of equities, guaranteed investment certificates (GICs) and treasury bills which bear interest at rates ranging from 2.1% to 2.5% (2018 - 1.4% to 2.4%) and have maturities greater than three months and less than one year.

	2019	2018
GICs and treasury bills	**$ 603,877**	$ 603,849
Canadian equity securities	**213,147**	189,347
	$ 817,024	$ 793,196

4. Tangible capital assets

			2019	2018
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Land	$ 813,629	$ -	**$ 813,629**	$ 813,629
Building and building improvements	2,231,047	1,685,230	**545,817**	617,827
Computer equipment	1,712,025	1,695,690	**16,335**	20,661
Vehicles	72,008	72,008	**-**	6,003
Other equipment	1,194,763	1,155,636	**39,127**	56,378
Leasehold improvements	282,083	282,083	**-**	-
	$ 6,305,555	$ 4,929,774	**$ 1,414,908**	$ 1,514,498

5. Intangible assets

Software is recorded at cost of $2,115,939 (2018 - $1,924,705) less accumulated amortization of $788,308 (2018 - $516,210).

All software previously under development (2018 - $1,771,810) has since been completed in 2019.

Amortization of the software costs commenced in fiscal 2016 with the roll out of the first components of the new software.

6. Accounts payable and accrued liabilities

		2019		2018
Accounts payable	**$**	**32,568**	$	125,906
Accrued liabilities		**215,829**		441,193
Government remittances payable		**34,041**		432,054
	$	**282,438**	$	999,153

Government remittances payable includes HST payable from the 2019 London Selected Yearling Sale of $Nil (2018 - $402,523). The decrease is a result of 0% of the HST remittance being remitted by Forest City Standardbred Sales in fiscal 2019 while 50% was remitted by Standardbred Canada in fiscal 2018.

7. Credit facility agreement

The Association has an operating facility totalling $250,000, which bears interest at the bank's prime lending rate plus 0.25%, is unsecured and is repayable on demand. At October 31, 2019, $Nil (2018 - $Nil) was drawn on this facility.

8. Financial instruments

Fair value

The carrying amounts of cash and cash equivalents, investments in GICs and treasury bills, receivables, accounts payables and accrued liabilities and stake programs liabilities approximate fair value because of the short term maturity of these financial instruments.

Investments that have been recorded at quoted market prices, which represent fair value, are disclosed in Note 3.

8. Financial instruments (continued)

Risk management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Association's financial instruments, which are unchanged from the prior year, are primarily exposed to credit, market and liquidity risks. The Association has formal policies and procedures that establish target asset mix. The Association's policies also require diversification of investments within categories, and set limits on exposure to individual investments.

Credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable.

Cash and cash equivalents consist of money market funds with a major Canadian financial institution and deposits with a major Canadian banking institution which may exceed federally insured limits. Investments consist of GICs and treasury bills, which carry an investment grade credit rating and are administered by a major Canadian financial institution.

Receivables are due from a large membership and customer base, which is geographically dispersed. The Association evaluates its members' and customers' financial condition and limits the amount of credit extended when deemed necessary. The Association utilizes an allowance for doubtful accounts to record potential credit losses associated with its trade receivables, the balance of which was $27,440 at October 31, 2019 (2018 - $27,440). Credit losses to date have been within management's expectations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency, interest rate and other price risks.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Association maintains a bank account denominated in U.S. funds. As such, it is subject to foreign currency risk due to fluctuations in U.S./Canadian exchange rates. Cash and cash equivalents denominated in U.S. funds of $199,511 (2018 - $74,667) were translated at the year-end rate of 1.3160 (2018 - 1.3142).

Interest rate risk arises from the possibility that changes in interest rates will affect the value of money market funds held by the Association. The Association manages this risk by holding a large portion of its securities in investment grade GICs and treasury bills. The Association invests in Canadian equities which are not subject to interest rate risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Association manages this risk by holding a large portion of its portfolio in investment grade Canadian equities.

8. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk the Association will encounter difficulties in meeting its financial liability obligations. The Association manages its liquidity risk through cash management.

9. Capital management

The Association's main objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide services to members and benefits for other stakeholders.

The Association sets the amount of capital in proportion to risk. The Association manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Association may adjust the timing of expenditures, or sell assets to meet obligations as they come due, particularly obligations relating to stake events.

Because computer functionality is fundamental to the Association's survival, the Association maintains a $300,000 internally restricted reserve for computer replacement.