Grant Thornton

Financial statements

Standardbred Canada
(Incorporated under the Animal Pedigree Act)

October 31, 2018

Contents

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Independent auditor's report

To the Members of
Standardbred Canada

We have audited the accompanying financial statements of Standardbred Canada, which comprise the statement of financial position as at October 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Standardbred Canada as at October 31, 2018, 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.

Grant Thornton LLP

Mississauga, Canada
February 2, 2019

Chartered Professional Accountants
Licensed Public Accountants

Standardbred Canada
Statement of operations

For the year ended October 31	2018	2017
Revenue		
Trot magazine	$ **971,709**	$ 947,677
Membership services	**786,098**	832,096
Computer services	**908,380**	827,358
Track fees	**681,087**	658,144
Membership dues and licensing fees	**598,852**	627,213
Horse sales and pedigree sales	**456,091**	397,359
World Trotting Conference/World Driving Championship	**-**	318,289
Identification	**253,040**	199,303
Stake and administrative services	**114,633**	128,415
Rent	**88,458**	84,912
Miscellaneous income	**56,821**	70,081
Investment income	**13,596**	50,089
	4,928,765	5,140,936
Expenses		
Information technology	**1,306,423**	1,083,594
General and administrative	**851,904**	843,137
Customer services	**798,029**	795,808
Trot magazine	**672,373**	689,278
Industry and government relations	**7,808**	335,225
Industry marketing and business development	**357,697**	310,980
Occupancy costs	**300,487**	293,597
Horse sales	**374,459**	268,903
Identification	**230,438**	203,442
Member insurance	**180,963**	143,866
Travel and meetings	**74,360**	71,526
Sales and stakes	**48,256**	51,396
	5,203,197	5,090,752
Excess (deficiency) of revenue over expenses	$ **(274,432)**	$ 50,184

See accompanying notes to the financial statements.

Standardbred Canada

Statement of changes in net assets

For the year ended October 31

	Unrestricted	Invested in property and equipment and software	Internally restricted	**2018 Total**	2017 Total
Net assets - beginning of year	$ 1,344,690	$ 2,975,320	$ 300,000	**$ 4,620,010**	$ 4,569,826
Excess (deficiency) of revenue over expenses	55,357	(329,789)	-	**(274,432)**	50,184
Transfer for purchase of capital and intangible assets	(277,462)	277,462	-	**-**	-
Net assets - end of year	$ 1,122,585	$ 2,922,993	$ 300,000	**$ 4,345,578**	$ 4,620,010

See accompanying notes to the financial statements.

Standardbred Canada
Statement of financial position

October 31	2018	2017
Assets		
Current		
Cash and cash equivalents (Note 3)	**$ 918,984**	$ 5,960,885
Investments (Note 4)	**793,196**	904,007
Receivables (Note 8)	**1,243,032**	2,426,124
Supplies and prepaid expenses	**99,547**	97,572
	3,054,759	9,388,588
Investments (Note 4)	**-**	403,699
Tangible capital assets (Note 5)	**1,514,498**	1,599,225
Intangible assets (Note 6)	**1,408,495**	1,376,095
	$ 5,977,752	$ 12,767,607
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	**$ 999,153**	$ 1,470,285
Due to consignors (Note 8)	**-**	6,044,572
Stake programs	**171,722**	161,616
Deferred revenue	**129,251**	136,944
Deferred membership revenue	**332,048**	334,180
	1,632,174	8,147,597
Net assets		
Unrestricted	**1,122,585**	1,344,690
Invested in property and equipment and software	**2,922,993**	2,975,320
Internally restricted - reserve for computer replacement	**300,000**	300,000
	4,345,578	4,620,010
	$ 5,977,752	$ 12,767,607

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	2018	2017
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess (deficiency) of revenue over expenses	**$ (274,432)**	$ 50,184
Items not involving cash		
Unrealized gains on investments	**41,465**	(19,065)
Amortization – tangible capital assets	**117,482**	119,709
Amortization – intangible assets	**212,307**	96,959
Amortization – lease inducement	**-**	3,862
Net change in non-cash operating working capital		
Receivables	**1,183,092**	(1,909,853)
Supplies and prepaid expenses	**(1,975)**	33,890
Accounts payable and accrued liabilities	**(471,132)**	1,076,038
Due to consignors	**(6,044,572)**	5,920,494
Stake programs	**10,106**	(1,076)
Deferred revenue	**(7,693)**	17,043
Deferred membership revenue	**(2,132)**	(22,321)
	(5,237,484)	5,365,864
Investing activities		
Change in investments (net)	**473,045**	250,336
Purchase of tangible capital assets	**(32,755)**	(34,751)
Purchase and development of intangible capital assets	**(244,707)**	(299,620)
	195,583	(84,035)
Increase (decrease) in cash and cash equivalents	**(5,041,901)**	5,281,829
Cash and cash equivalents, beginning of year	**5,960,885**	679,056
Cash and cash equivalents, end of year	**$ 918,984**	$ 5,960,885

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. Cash and cash equivalents

The significant decline in cash and cash equivalents is a result of the fiscal 2017 results including proceeds from the London Selected Yearling Sale which occurred in October 2017. Due to a change in arrangements for the sale, this did not recur in fiscal 2018. As a result, cash and equivalents have returned to regular levels.

4. Investments

Short-term investments consist of equities, guaranteed investment certificates (GICs) and treasury bills which bear interest at rates ranging from 1.4% to 2.4% (2017 - 1.4% to 2.1%) and have maturities greater than three months and less than one year.

Long-term investments consist of GICs and treasury bills, which have maturities of greater than one year.

	2018	2017
GICs and treasury bills	**$ 603,849**	$ 1,105,344
Canadian equity securities	**189,347**	202,362
	793,196	1,307,706
Less: short-term portion	**793,196**	904,007
	$ -	$ 403,699

5. Tangible capital assets

			2018	**2017**
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Land	$ 813,629	$ -	**$ 813,629**	$ 813,629
Building and building improvements	2,231,047	1,613,220	**617,827**	689,819
Computer equipment	1,699,393	1,678,732	**20,661**	14,042
Vehicles	72,008	66,005	**6,003**	12,006
Other equipment	1,194,763	1,138,385	**56,378**	69,729
Leasehold improvements	282,083	282,083	**-**	-
	$ 6,292,923	$ 4,778,425	**$ 1,514,498**	$ 1,599,225

6. Intangible assets

Software is recorded at cost of $1,924,705 (2017 - $1,679,998) less accumulated amortization of $516,210 (2017 - $303,903).

Included in software is software under development costs of $1,771,810 (2017 - $1,527,815).

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

7. Accounts payable and accrued liabilities

	2018	2017
Accounts payable	**$ 125,906**	$ 71,958
Accrued liabilities	**441,193**	547,614
Government remittances payable	**432,054**	850,712
	$ 999,153	$ 1,470,285

Government remittances payable includes HST payable from the 2018 London Selected Yearling Sale of $402,523 (2017 - $837,214). The decrease is a result of 50% of the HST remittance being remitted by Forest City Standardbred Sales in fiscal 2018 while 100% was remitted by Standardbred Canada in fiscal 2017.

8. Due to consignors

There is a $Nil balance in due to consignors (2017 - $6,044,572)

In fiscal 2018, all transactions related to the London Selected Yearling Sale were completed by Forest City Standardbred Sales. In fiscal 2017, these activities were completed by Standardbred Canada.

9. 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, 2018, $Nil (2017 - $Nil) was drawn on this facility.

10. Financial instruments

Fair value

The carrying amounts of cash and cash equivalents, investments in GICs and treasury bills, receivables, accounts payables and accrued liabilities, due to consignors 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 4.

10. 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, 2018 (2017 - $10,200). 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 $74,667 (2017 - $300,704) were translated at the year-end rate of 1.3142 (2017 - 1.2893).

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.

10. 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.

11. 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.