

FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended March 31, 2016
and Independent Auditors' Report to the Board of Directors

FORT ERIE LIVE RACING CONSORTIUM
FINANCIAL STATEMENTS
MARCH 31, 2016

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CHARTERED
PROFESSIONAL
ACCOUNTANTS

DURWARD JONES BARKWELL
& COMPANY LLP

Big enough to know. SMALL ENOUGH TO CARE.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Fort Erie Live Racing Consortium:

We have audited the financial statements of Fort Erie Live Racing Consortium, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and surplus and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for 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.

Auditors' 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 auditors' 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 Fort Erie Live Racing Consortium as at March 31, 2016, 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.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

June 28, 2016

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FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS AND SURPLUS

YEAR ENDED MARCH 31, 2016

	<u>2016</u>	<u>2015</u>
REVENUE		
Net proceeds from pari-mutuel wagering (Note 8)	\$ 1,963,417	\$ 2,152,496
Food and beverage	498,244	475,097
Funding - The Alcohol and Gaming Commission of Ontario (Note 9)	7,900,000	7,900,000
Grant - Town of Fort Erie	500,000	500,000
Other	147,174	204,570
	11,008,835	11,232,163
PURSES		
Generated from pari-mutuel wagering	879,559	938,359
Contributions from The Alcohol and Gaming Commission of Ontario (Note 9)	2,690,182	2,765,000
	3,569,741	3,703,359
REVENUE LESS PURSES	7,439,094	7,528,804
EXPENSES		
Depreciation	51,656	44,675
Other operating expenses	3,638,258	3,820,054
Rent	395,000	395,000
Salaries, wages and benefits	3,236,048	3,189,007
	7,320,962	7,448,736
EXCESS OF REVENUE OVER EXPENSES	118,132	80,068
SURPLUS, BEGINNING OF YEAR	183,380	189,475
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS (Note 6)	21,564	(42,675)
CHANGE IN ADMINISTRATIVE RESERVE (Note 7)	(24,000)	(43,488)
SURPLUS, END OF YEAR	\$ 299,076	\$ 183,380

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash (Note 2)	\$ 1,559,959	\$ 1,595,604
Accounts receivable	83,077	105,199
Inventory	34,953	55,528
Prepaid expenses	30,650	70,942
	<u>1,708,639</u>	<u>1,827,273</u>
Capital assets (Note 3)	<u>86,033</u>	<u>107,597</u>
	<u>\$ 1,794,672</u>	<u>\$ 1,934,870</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	\$ 888,646	\$ 1,146,976
Lease commitment (Note 5)		
NET ASSETS		
Investment in capital assets (Note 6)	86,033	107,597
Administrative reserve (Note 7)	520,917	496,917
Unrestricted surplus	299,076	183,380
	<u>906,026</u>	<u>787,894</u>
	<u>\$ 1,794,672</u>	<u>\$ 1,934,870</u>

Approved by the Board:

 Director

 Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 118,132	\$ 80,068
Depreciation, an item not affecting cash	<u>51,656</u>	<u>44,675</u>
	169,788	124,743
Changes in non-cash operating assets and liabilities		
Accounts receivable	22,122	157,954
Inventory	20,575	(21,466)
Prepaid expenses	40,292	(23,732)
Accounts payable and accrued liabilities	<u>(258,330)</u>	<u>229,841</u>
	(5,553)	467,340
INVESTING ACTIVITY		
Purchase of capital assets	<u>(30,092)</u>	<u>(87,350)</u>
INCREASE (DECREASE) IN CASH	(35,645)	379,990
CASH, BEGINNING OF YEAR	<u>1,595,604</u>	<u>1,215,614</u>
CASH, END OF YEAR	<u>\$ 1,559,959</u>	<u>\$ 1,595,604</u>

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Nature of business

The Fort Erie Live Racing Consortium (The "Corporation") was incorporated on November 26, 2009 as a Corporation without share capital as a not-for-profit organization. It was formed to lease and operate the racing and gaming assets, as described below, of Nordic Gaming Corporation ("Nordic") effective January 1, 2010.

The Corporation is a horse racing and pari-mutuel wagering company and provider of live wagering to the simulcast market. The Corporation leases and operates the Fort Erie racetrack where it conducts live thoroughbred horse racing, and offers pari-mutuel wagering on these and other races from other North American tracks.

Revenue recognition

The Corporation recognizes revenue from commissions on pari-mutuel wagering as races are run.

The Corporation recognizes revenue on food and beverage, programs and other services as these services are delivered.

The Corporation recognizes grants when received.

Translation of foreign currency

The accounts of the Corporation denominated in a foreign currency have been translated to Canadian dollars on the following basis:

- a) Monetary assets and liabilities are translated at the rate prevailing at the balance sheet date.
- b) All other assets and liabilities are translated at the rate prevailing at the dates the assets were acquired or the liabilities incurred.
- c) Revenue and expenses are translated at the rate of exchange prevailing when the revenue is earned and the expenses are incurred.

The resulting foreign currency translation gains and losses are included in the determination of net income.

Cash

Cash includes balances with banks and cash floats.

Inventory

Inventory, consisting primarily of food and paper products are valued at the lower of cost and net realizable value. Cost is determined based on purchase price net of any refundable taxes.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)***Capital assets***

Capital assets are recorded at acquisition cost and depreciated over their useful lives using the annual rates applied on a straight-line basis. The Corporation calculates depreciation monthly and begins depreciation when the asset is put in use. Capital assets consist of buildings and machinery and equipment and are depreciated over a period of 3 to 5 years.

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Financial instruments**(a) Measurement of financial instruments**

The Corporation initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which are subsequently measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

(b) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in the statement of operations. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by the asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in the statement of operations up to the amount of the previously recognized impairment.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used when accounting for items such as determination of useful life of capital assets, revenue recognition, allowances for accounts receivable, accrued liabilities and contingent liabilities. Actual results could differ from management's best estimates, as additional information becomes available in the future.

Administrative reserve

This internally restricted reserve represents an allocation of working capital intended to ensure that funds are available to meet the Corporations obligations in the event it is ever unable to continue operations.

2. CASH

	<u>2016</u>	<u>2015</u>
Operational fund bank	\$ 487,600	\$ 449,421
Purse fund bank	251,279	471,375
Cash and other bank accounts	<u>821,080</u>	<u>674,808</u>
	<u>\$ 1,559,959</u>	<u>\$ 1,595,604</u>

Both the operational fund and the purse fund accounts are interest bearing at rates varying with prime per annum.

3. CAPITAL ASSETS

	<u>2016</u>		<u>2015</u>
	Cost	Accumulated Depreciation	Cost Accumulated Depreciation
Buildings	\$ 76,113	\$ 74,170	\$ 76,113 \$ 63,468
Machinery and equipment	298,798	214,708	268,707 173,755
	<u>374,911</u>	<u>288,878</u>	344,820 237,223
Net book value		<u>\$ 86,033</u>	<u>\$ 107,597</u>

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2016</u>	<u>2015</u>
Trade accounts payable and accrued liabilities	\$ 382,729	\$ 417,698
Horsepeople's deposits	254,230	258,720
Purse account underpayments	251,687	470,558
	<u>\$ 888,646</u>	<u>\$ 1,146,976</u>

Horsepeople's deposits represent funds held on deposit for individual horsepeople and are payable upon demand.

5. LEASE COMMITMENT

The Corporation has entered into a three year lease that expires on March 31, 2017, subject to the Corporation receiving sufficient funding to operate with adequate financial viability. The aggregate minimum lease payments required under the terms of the lease are \$395,000.

6. NET ASSETS INVESTED IN CAPITAL ASSETS

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 107,597	\$ 64,922
Additions during the year	30,092	87,350
Depreciation during the year	(51,656)	(44,675)
	<u>\$ 86,033</u>	<u>\$ 107,597</u>

7. ADMINISTRATIVE RESERVE

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 496,917	\$ 453,429
Add: Appropriation by Board of Directors	24,000	64,000
Less: Severance payments	-	(20,512)
	<u>\$ 520,917</u>	<u>\$ 496,917</u>

This internally restricted reserve represents an allocation of working capital intended to ensure that funds are available to meet the Corporation's obligations in the event it is ever unable to continue operations. Included in these obligations is an accrual for severance obligations, calculated in accordance with the Employment Standards Act.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

8. NET PROCEEDS FROM PARI-MUTUEL WAGERING

Net proceeds from pari-mutuel wagering represents the total wagering less amounts returned as winning wagers, provincial and federal taxes, regulatory funding and host track share for simulcast races. Also included in this amount for the year were commissions from remote wagering of \$738,971 (2015 - \$557,831).

9. FUNDING - THE ALCOHOL AND GAMING COMMISSION OF ONTARIO

Effective April 1, 2014, the Corporation entered into a FAR (Fort Erie, Ajax Downs, Rideau Carlton) support agreement with The Alcohol and Gaming Commission of Ontario (formally The Ontario Racing Commission). This agreement provides transfer payments, up to five years in duration, to provide operational and purse support to the Corporation. The maximum funding to be provided under this agreement is \$7,900,000 per year.

10. INCOME TAXES

The Corporation is a not-for-profit entity and not subject to income taxes.

11. FINANCIAL RISK MANAGEMENT

The Corporation has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

(a) Currency risk:

The Corporation has purchases and sales which are transacted in US currency and therefore is exposed to currency risk. At March 31, 2016, trade accounts receivable held in US currency were \$2,815 (2015 - \$2,843), US trade accounts payable were \$31,290 (2015 - \$49,083) and cash balances in US were \$382,786 (2015 - \$284,000). The Corporation does not use any derivative instruments to reduce its exposure to interest rate risk.

It is management's opinion that the Corporation is not exposed to significant interest rate, market (other price), credit or liquidity risks arising from its financial instruments.

12. ECONOMIC DEPENDENCE

The Corporation will be receiving a significant portion of its revenue pursuant to an agreement with the Provincial Government (Note 9). Should these contributions cease, the Corporation would need to develop different revenue sources or consider radical changes in operations.

13. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.
