# FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended March 31, 2019
and Independent Auditor's Report to the Board of Directors

# FORT ERIE LIVE RACING CONSORTIUM
FINANCIAL STATEMENTS
MARCH 31, 2019

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CHARTERED
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**INDEPENDENT AUDITOR'S REPORT**

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

**Opinion**

We have audited the accompanying financial statements of Fort Erie Live Racing Consortium (the Corporation), which comprise the statement of Financial Position as at March 31, 2019 and the statements of Operations and Surplus and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at March 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.

**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 Corporation 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

**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 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.

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

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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.

Durward Jones Barkwell + Company LLP

**Durward Jones Barkwell & Company LLP**
**Licensed Public Accountants**

**July 9, 2019**

# FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED MARCH 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **REVENUE** | | |
| Net proceeds from pari-mutuel wagering (Note 8) | **$ 1,792,335** | $ 1,810,030 |
| Food and beverage | **575,924** | 550,133 |
| Funding - The Ontario Lottery and Gaming Corporation (Note 9) | **8,400,000** | 7,900,000 |
| Other | **182,776** | 156,820 |
| | **10,951,035** | 10,416,983 |
| **PURSES** | | |
| Generated from pari-mutuel wagering | **806,093** | 809,629 |
| Contributions from The Ontario Lottery and Gaming Corporation (Note 9) | **2,726,000** | 2,686,000 |
| | **3,532,093** | 3,495,629 |
| **REVENUE LESS PURSES** | **7,418,942** | 6,921,354 |
| **EXPENSES** | | |
| Depreciation | **47,646** | 46,974 |
| Other operating expenses | **3,537,645** | 3,450,682 |
| Rent | **419,055** | 406,850 |
| Salaries, wages and benefits | **3,321,716** | 3,229,564 |
| | **7,326,062** | 7,134,070 |
| **EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES** | **92,880** | (212,716) |
| **SURPLUS, BEGINNING OF YEAR** | **181,473** | 385,136 |
| **CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS** (Note 6) | **(3,076)** | 9,053 |
| **SURPLUS, END OF YEAR** | **$ 271,277** | $ 181,473 |

# FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash (Note 2) | **$ 1,398,787** | $ 1,150,681 |
| Accounts receivable | **49,576** | 78,626 |
| Inventory | **52,341** | 42,834 |
| Prepaid expenses | **20,968** | 43,573 |
| | **1,521,672** | 1,315,714 |
| **Capital assets** (Note 3) | **123,851** | 120,775 |
| | **$ 1,645,523** | $ 1,436,489 |
| **LIABILITY** | | |
| **Current liability** | | |
| Accounts payable and accrued liabilities (Note 4) | **$ 696,769** | $ 580,615 |
| **Lease commitment** (Note 5) | | |
| **NET ASSETS** | | |
| Investment in capital assets (Note 6) | **123,851** | 120,775 |
| Administrative reserve (Note 7) | **553,626** | 553,626 |
| Unrestricted surplus | **271,277** | 181,473 |
| | **948,754** | 855,874 |
| | **$ 1,645,523** | $ 1,436,489 |

Approved by the Board:

................................................................ Director ................................................................ Director

# FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess (deficiency) of revenue over expenses | $ 92,880 | $ (212,716) |
| Depreciation, an item not affecting cash | 47,646 | 46,974 |
| | 140,526 | (165,742) |
| Changes in non-cash operating assets and liabilities | | |
| Accounts receivable | 29,050 | (18,820) |
| Inventory | (9,507) | (6,299) |
| Prepaid expenses | 22,605 | (18,824) |
| Accounts payable and accrued liabilities | 116,154 | (163,666) |
| | 298,828 | (373,351) |
| **INVESTING ACTIVITY** | | |
| Purchase of capital assets | (50,722) | (37,921) |
| **INCREASE (DECREASE) IN CASH** | 248,106 | (411,272) |
| **CASH, BEGINNING OF YEAR** | 1,150,681 | 1,561,953 |
| **CASH, END OF YEAR** | $ 1,398,787 | $ 1,150,681 |

# FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

## 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 contributions using the deferral method. Funding provided for general operating purposes is recorded as revenue in the fiscal year in which it is awarded. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions received for capital assets are deferred and taken into income at a rate corresponding with the amortization rate for the related assets acquired. The Corporation recognizes revenue from commissions on pari-mutuel wagering as races are run and revenue from food and beverage, programs and other services as these services are delivered.

***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.

Inventory expensed during the year amounted to $240,061 (2018 - $246,211)

## 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***

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, 2019

## 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, inventory valuation, 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

| | 2019 | 2018 |
|---|---|---|
| Operational fund bank | $ 225,939 | $ 284,036 |
| Purse fund bank | 124,679 | 79,747 |
| Cash and other bank accounts | 1,048,169 | 786,898 |
| | $ 1,398,787 | $ 1,150,681 |

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

## 3. CAPITAL ASSETS

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Buildings | $ 76,113 | $ 76,113 | $ 76,113 | $ 76,113 |
| Machinery and equipment | 468,436 | 344,585 | 417,715 | 296,940 |
| | 544,549 | 420,698 | 493,828 | 373,053 |
| Net book value | | $ 123,851 | | $ 120,775 |

# FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2019

## 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2019 | 2018 |
|---|---|---|
| Trade accounts payable and accrued liabilities | **$ 382,677** | $ 343,351 |
| Horsepeople's deposits | **278,465** | 269,505 |
| Purse account (overpayments) underpayments | **35,627** | (32,241) |
| | **$ 696,769** | $ 580,615 |

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 lease that expires on March 31, 2022, 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:

| | | |
|---|---|---|
| Years ending | 2020 | **431,629** |
| | 2021 | **444,576** |
| | 2022 | **457,913** |
| | | **$ 1,334,118** |

## 6. NET ASSETS INVESTED IN CAPITAL ASSETS

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | **$ 120,775** | $ 129,828 |
| Additions during the year | **50,722** | 37,921 |
| Depreciation during the year | **(47,646)** | (46,974) |
| Balance, end of year | **$ 123,851** | $ 120,775 |

## 7. ADMINISTRATIVE RESERVE

| | 2019 | 2018 |
|---|---|---|
| Balance, end of year | **$ 553,626** | $ 553,626 |

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, 2019

## 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 $753,760 (2018 - $714,327).

## 9. FUNDING - THE ONTARIO LOTTERY AND GAMING CORPORATION

Effective April 1, 2014, the Corporation entered into a FAR (Fort Erie, Ajax Downs, Rideau Carlton) support agreement with the Ontario Lottery and Gaming Corporation (OLG). The 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, with an additional $500,000 being approved for the 2019 fiscal year end for maximum funding of $8,400,000. Of the additional $500,000, the Corporation approved $40,000 to be added to the purse account.

On May 7, 2018, OLG, Horse Racing Ontario (Ontario Racing), Ontario Racing Management Inc. and Woodbine Entertainment Group (WEG) entered into an Agreement to implement a funding model in which payments will be made by OLG to Ontario Racing, and Ontario Racing will distribute the money received from the OLG to or for the benefit of the OR Racetrack members subject to the terms and conditions of the Agreement. This new funding agreement commences on April 1, 2019 and the new agreement guarantees a minimum funding of $8,400,000 for the 2019/20 and the 2020/21 fiscal periods. The terms of this new Agreement provides for the opportunity to obtain additional funding for Additional Purse Enhancement Payments, Capital Improvement Payments, in addition to the above noted Racetrack Payments and two year Transition Payments. The term of the new agreement is for 19 years which expires March 31, 2038.

## 10. RELATED PARTY TRANSACTIONS

The Organization's Board of Directors consists of both self-perpetuating and statutorily appointed members. One member is a participant in the thoroughbred racing industry and has interests in races at the Fort Erie Live Racing Consortium. Total purses paid to this member in the fiscal year amount to $91,209. No director receives special benefits with regard to having their horses selected to run in races or in connection with actual race results.

## 11. INCOME TAXES

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

# FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019

## 12. 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, 2019, trade accounts receivable held in US currency were $9,117 (2018 - $4,501), US trade accounts payable were $48,684 (2018 - $45,120) and cash balances in US were $388,890 (2018 - $176,104). 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.

## 13. 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.

## 14. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.