



Grant Thornton

Financial statements

Standardbred Canada

(Incorporated under the *Animal Pedigree Act*)

October 31, 2011

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Independent Auditor's Report

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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, 2011, 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 generally accepted accounting principles, 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 at October 31, 2011, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Mississauga, Canada
January 27, 2012

Grant Thornton LLP

Chartered accountants
Licensed Public Accountants

Standardbred Canada

Statement of operations

For the year ended October 31

2011

2010

Revenue

Membership dues and licensing fees	\$ 931,877	\$ 989,416
Track fees	842,482	866,628
Membership services	1,324,506	1,433,881
Identification	292,724	310,157
Trot magazine	1,149,981	1,171,504
Horse sales	740,814	754,629
Pedigree and stake services	89,173	81,455
Computer services	842,695	815,204
Rent	49,277	78,122
Investment income	41,255	73,897
Miscellaneous income	208,401	179,627
Marketing programs and business development	32,535	39,358
	<u>6,545,720</u>	<u>6,793,878</u>

Expenses

General and administrative	1,566,778	1,758,987
Information technology	1,098,959	1,083,160
Customer services	976,354	938,151
Member insurance	253,825	279,022
Identification	286,356	299,546
Horse sales	571,039	616,195
Trot magazine	748,822	801,350
Industry marketing and business development	287,134	331,887
Sales and stakes	138,274	120,237
Travel and meetings	123,680	150,605
Occupancy costs	306,061	304,180
Industry and government relations	34,701	4,875
	<u>6,391,983</u>	<u>6,688,195</u>

Excess of revenue over expenses	\$ <u>153,737</u>	\$ <u>105,683</u>
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See accompanying notes to the financial statements.

Standardbred Canada
Statement of changes in net assets

For the year ended October 31

	2011		2010			
	<u>Unrestricted</u>	<u>Invested in property and equipment</u>	<u>Fair value adjustment</u>	<u>Internally restricted</u>	<u>Total</u>	<u>Total</u>
Net assets - beginning of year	\$ 856,720	\$ 2,332,146	\$ 41,989	\$ 300,000	\$ 3,530,855	\$ 3,425,172
Excess (deficiency) of revenue over expenses	379,533	(225,796)	-	-	153,737	105,683
Unrealized gain related to fair value of liabilities	(4,851)	-	4,851	-	-	-
Transfer for purchase of capital assets	<u>(111,537)</u>	<u>111,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of year	\$ <u>1,119,865</u>	\$ <u>2,217,887</u>	\$ <u>46,840</u>	\$ <u>300,000</u>	\$ <u>3,684,592</u>	\$ <u>3,530,855</u>

See accompanying notes to the financial statements.

Standardbred Canada

Statement of financial position

October 31

2011

2010

Assets

Current

Cash and cash equivalents	\$ 2,069,231	\$ 1,577,252
Investments (Note 4)	661,559	1,365,025
Receivables	741,281	896,201
Supplies and prepaid expenses	<u>86,859</u>	<u>85,005</u>
	3,558,930	3,923,483

Investments (Note 4)	1,201,137	642,996
Property and equipment (Note 5)	<u>2,217,887</u>	<u>2,332,146</u>
	\$ 6,977,954	\$ 6,898,625

Liabilities

Current

Payables and accruals	\$ 784,818	\$ 527,478
Current portion of term loans (Note 7)	15,378	15,378
Due to consignors (Note 8)	980,730	1,315,655
Canadian Breeders Championships and other stake events	397,022	374,051
Deferred revenue	156,702	139,692
Deferred membership revenue	<u>524,436</u>	<u>516,254</u>
	2,859,086	2,888,508

Canadian Breeders Championships and other stake events	406,181	435,789
Term loans (Note 7)	<u>28,095</u>	<u>43,473</u>
	3,293,362	3,367,770

Net assets

Unrestricted	1,119,865	856,720
Invested in property and equipment	2,217,887	2,332,146
Unrealized gain related to fair value of liabilities	46,840	41,989
Internally restricted - reserve for computer replacement	<u>300,000</u>	<u>300,000</u>
	3,684,592	3,530,855
	\$ 6,977,954	\$ 6,898,625

On behalf of the board

_____ Director _____ Director

See accompanying notes to the financial statements.

Standardbred Canada

Statement of cash flows

For the year ended October 31

2011

2010

Increase (decrease) in cash and cash equivalents

Cash from operations

Excess of revenue over expenses	\$ 153,737	\$ 105,683
Non-cash items		
Amortization	225,796	233,294
Interest accretion of Canadian Breeders Championships and other stake events - net	4,851	(8,887)
Net change in non-cash operating working capital		
Receivables	154,920	29,761
Supplies and prepaid expenses	(1,854)	(16,765)
Payables and accruals	257,340	141,543
Canadian Breeders Championships and other stake events	(11,488)	(50,328)
Due to consignors	(334,925)	(123,233)
Deferred revenue	17,010	645
Deferred membership revenue	8,182	(41,704)
	<u>473,579</u>	<u>270,009</u>

Financing

Repayment of term loans	<u>(15,378)</u>	<u>(14,689)</u>
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Investing

Proceeds from investments - net	145,325	199,863
Purchase of property and equipment	<u>(111,537)</u>	<u>(296,562)</u>
	<u>33,788</u>	<u>(96,699)</u>

Increase in cash and cash equivalents	491,979	158,621
Cash and cash equivalents - beginning of year	<u>1,577,252</u>	<u>1,418,631</u>
Cash and cash equivalents - end of year	<u>\$ 2,069,231</u>	<u>\$ 1,577,252</u>

See accompanying notes to the financial statements.

Standardbred Canada

Notes to the financial statements

October 31, 2011

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 voice in the development, growth, marketing and promotion of the standardbred industry in Canada.

Standardbred Canada ensures the integrity and encourages the growth of the standardbred industry in Canada for the benefit of the industry's participants and customers by providing a national forum for consideration and resolution of issues; operating a comprehensive database and recordkeeping system; representing the industry nationally and internationally; and developing marketing and promotion.

Its objectives are to record, collect, publish and preserve data and documents relating to the breeding, origin and racing of standardbred horses.

2. Summary of significant accounting policies

Revenue recognition

Membership fees are voluntary and are recorded as received. Deferred revenue represents net 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.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and insurance companies, and short term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Investments

Short and long term investments are classified as held for trading and are carried at fair value.

Standardbred Canada

Notes to the financial statements

October 31, 2011

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

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

Long-lived assets

Long-lived assets held and used by the association are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes that there has been no impairment of the association's long-lived assets as of October 31, 2011.

Income taxes

The association is a non-profit organization and is exempt from income taxes under section 149(1) of the Income Tax Act.

Use of estimates

In preparing the association's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Financial instruments – recognition and measurement

Financial assets must be classified as either held for trading, held to maturity ('HTM'), available-for-sale ('AFS') or loans and receivables. Financial liabilities are classified as held for trading or other. Initially, all financial assets and financial liabilities must be recorded on the statement of financial position at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Standardbred Canada

Notes to the financial statements

October 31, 2011

2. Summary of significant accounting policies (continued)

Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in the statement of operations. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. AFS financial assets are measured at fair value with changes in fair value reported in the statement of changes in net assets until realized through sale or other than temporary impairment.

Cash and cash equivalents, investments and Canadian Breeders Championships and other stake events have been classified as held for trading. Receivables have been classified as loans and receivables. Payables and accruals, terms loans and due to consignors have been classified as other financial liabilities.

Future accounting policies

On December 31, 2010, the Accounting Standards Board (AcSB) issued Part III of the Accounting Handbook: Accounting Standards for Not-for-Profit Organizations ("ASNPO"). The standards are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2012. The standards are applicable to all not-for-profit organizations. The association has determined that it will adopt ASNPO but has not yet assessed the impact of these new standards on its financial statements

3. Financial instruments

Fair values

The fair values of cash and cash equivalents, receivables, payables and accruals and due to consignors are assumed to approximate their carrying amounts because of their short term to maturity. The carrying value of term loans approximate fair value due to their market rates of interest.

Investments have been recorded at quoted market prices which represent fair value.

The Canadian Breeders Championships and other stake events liabilities have been discounted at the association's average rate of return of 2.5% to determine fair market value. The determination of the annual interest will be recognized primarily based on estimated future cash flows. The association expects to pay the full face value of the liabilities.

Standardbred Canada

Notes to the financial statements

October 31, 2011

3. Financial instruments (continued)

Credit risk

The association is subject to credit risk through trade receivables. Credit risk is minimized by a large customer base and its geographic dispersion. The association performs ongoing credit evaluations of its 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 \$23,000 at October 31, 2011 (2010 - \$17,000). Credit losses to date have been within management's expectations.

Interest rate risk

The association is subject to interest rate risk as a result of using variable rate debt to finance its operations.

Market risk and currency risk

It is management's opinion that the association is not exposed to significant currency risks arising from foreign exchange rates.

The association invests in Canadian equities which are subject to market risk.

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 and debt management.

4. Investments

Short term investments consist of equity, guaranteed investment certificates, treasury bills and government bonds which bear interest at rates ranging from 1.95% to 4.5% and have maturities of less than 365 days.

Long term investments consist of guaranteed investment certificates, which bear interest at rates ranging from 2.15% to 2.6% and have maturities of greater than one year.

	<u>2011</u>	<u>2010</u>
GICs and treasury bills	\$ 1,596,627	\$ 2,008,021
Canadian equity securities	<u>266,069</u>	<u>-</u>
	1,862,696	2,008,021
Less: current portion	<u>661,559</u>	<u>1,365,025</u>
	\$ <u>1,201,137</u>	\$ <u>642,996</u>

Standardbred Canada

Notes to the financial statements

October 31, 2011

	<u>2011</u>			<u>2010</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 813,629	\$ -	\$ 813,629	\$ 813,629
Building and building improvements	2,231,048	1,105,249	1,125,799	1,206,877
Leasehold Improvements	282,083	197,238	84,845	136,124
Computer equipment	1,656,953	1,606,566	50,387	45,661
Other equipment	1,104,744	992,570	112,174	83,435
Vehicles	<u>84,010</u>	<u>52,957</u>	<u>31,053</u>	<u>46,420</u>
	<u>\$ 6,172,467</u>	<u>\$ 3,954,580</u>	<u>\$ 2,217,887</u>	<u>\$ 2,332,146</u>

6. Bank indebtedness

The association has an operating facility totalling \$250,000 which was unused at October 31, 2011. The facility bears interest at the bank's prime lending rate, is unsecured and is repayable on demand.

7. Term Loan

	<u>2011</u>	<u>2010</u>
Loan payable – zero interest due September 2014, repayable in monthly principal instalments of \$591.	\$ 20,700	\$ 27,796
Loan payable – zero interest due June 2014, repayable in monthly principal instalments of \$690.	<u>22,773</u>	<u>31,055</u>
	<u>43,473</u>	<u>58,851</u>
Less: current portion	<u>15,378</u>	<u>15,378</u>
	<u>\$ 28,095</u>	<u>\$ 43,473</u>

Principal repayments in each of the next three years are as follows:

2012	15,378
2013	15,378
2014	12,717

Standardbred Canada

Notes to the financial statements

October 31, 2011

8. Due to consignors

Of the total balance due to consignors, \$903,536 (2010 - \$1,071,392) has been collected from third parties and is included in cash and cash equivalents. The remaining balance of \$77,194 (2010 - \$ 244,263) due to consignors has not yet been collected and is included in receivables.

9. Capital

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 reduce debt and meet obligations as they come due, particularly obligations relating to Canadian Breeders Championship and other stake events.

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

10. Peel Condominium Corporation No. 467 (PCC)

PCC is a separate non-profit corporation responsible for the management and maintenance of the incumbent areas (such as the driveway and exterior landscaping) of the head office building, of which both units are owned by Standardbred Canada.

Throughout the year, Standardbred Canada was the sole director of PCC.

The financial statements of Standardbred Canada do not include the financial activities of PCC as the activities are considered immaterial to these financial statements.

During the year, Standardbred Canada paid \$164,400 (2010 - \$160,800) in condominium fees to PCC which has been included in occupancy costs in the statement of operations and received \$14,400 (2010 - \$14,400) with respect to management and administration fees which has been included in miscellaneous income in the statement of operations.

11. Comparative figures

Certain of the comparative figures have been reclassified to conform with financial statement presentation adopted in the current year.