Grant Thornton

Financial statements

Standardbred Canada
(Incorporated under the Animal Pedigree Act)

October 31, 2013

Contents

Independent Auditors' 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, 2013, 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, 2013, 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 7, 2014

Chartered accountants
Licensed Public Accountants

Standardbred Canada
Statement of operations

For the year ended October 31	2013	2012
Revenue		
Membership services	$ 1,088,034	$ 1,225,299
Trot magazine	889,580	1,077,028
Computer services	853,142	949,610
Membership dues and licensing fees	831,026	922,636
Track fees	753,765	847,303
Horse sales and pedigree sales	356,971	515,555
Identification	238,725	235,391
Stake and administrative services	131,602	147,148
Rent	77,809	57,830
Investment income	56,325	58,207
Miscellaneous income	61,533	54,126
Marketing programs and business development	-	12,812
	5,338,512	6,102,945
Expenses		
General and administrative	1,539,152	1,706,714
Information technology	898,887	1,082,822
Customer services	559,335	803,585
Trot magazine	522,475	667,271
Occupancy costs	277,673	308,901
Horse sales	274,688	424,422
Identification	246,489	280,049
Member insurance	225,576	257,851
Industry marketing and business development	153,486	250,052
Sales and stakes	115,772	114,140
Travel and meetings	98,729	112,488
Industry and government relations	42,069	81,580
	4,954,331	6,089,875
Excess of revenue over expenses	$ 384,181	$ 13,070

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	Fair value adjustment	Internally restricted	**2013 Total**	2012 Total
Net assets - beginning of year	$ 1,102,352	$ 2,254,476	$ 40,834	$ 300,000	**$ 3,697,662**	$ 3,684,592
Excess of revenue over expenses	571,569	(187,388)		-	**384,181**	13,070
Unrealized gain related to fair value of liabilities	40,834	-	(40,834)	-	**-**	-
Transfer for purchase of capital and intangible assets	(532,526)	532,526	-	-	**-**	-
Net assets - end of year	$ 1,182,229	$ 2,599,614	$ -	$ 300,000	**$ 4,081,843**	$ 3,697,662

See accompanying notes to the financial statements.

Standardbred Canada
Statement of financial position

October 31	**October 31, 2013**	October 31, 2012	November 1, 2011
Assets			
Current			
Cash and cash equivalents	**$ 1,098,979**	$ 618,135	$ 2,069,231
Investments (Note 4)	**1,607,122**	1,108,384	661,559
Receivables	**607,395**	555,513	741,281
Supplies and prepaid expenses	**113,832**	72,443	86,859
	3,427,328	2,354,475	3,558,930
Investments (Note 4)	**-**	1,187,700	1,201,137
Lease inducement (Note 5)	**38,620**	50,206	-
Tangible capital assets (Note 6)	**1,936,793**	2,047,086	2,206,563
Intangible assets (Note 7)	**662,821**	207,390	11,324
	$ 6,065,562	$ 5,846,857	$ 6,977,954
Liabilities			
Current			
Bank indebtedness (Note 8)	**$ -**	$ 36,367	$ -
Payables and accruals (Note 9)	**401,774**	634,628	784,818
Current portion of term loans (Note 10)	**12,027**	15,378	15,378
Due to consignors (Note 11)	**663,597**	91,198	980,730
Canadian Breeders Championships and other stake events	**358,939**	348,020	397,022
Deferred revenue	**107,654**	128,585	156,702
Deferred membership revenue	**439,728**	478,163	524,436
	1,983,719	1,732,339	2,859,086
Canadian Breeders Championships and other stake events	**-**	404,829	406,181
Term loans (Note 10)	**-**	12,027	28,095
	1,983,719	2,149,195	3,293,362
Net assets			
Unrestricted	**1,182,229**	1,102,352	1,119,865
Invested in property and equipment	**2,599,614**	2,254,476	2,217,887
Unrealized gain related to fair value of liabilities	**-**	40,834	46,840
Internally restricted - reserve for computer replacement	**300,000**	300,000	300,000
	4,081,843	3,697,662	3,684,592
	$ 6,065,562	$ 5,846,857	$ 6,977,954

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		2013		2012
Increase (decrease) in cash and cash equivalents				
Cash from operations				
Excess of revenue over expenses	**$**	**384,181**	$	13,070
Non-cash items				
Amortization – tangible capital assets		**179,107**		195,731
Amortization – lease inducement		**11,586**		7,724
Amortization – intangible assets		**8,281**		7,349
Unrealized (gain) loss on investments		**(1,196)**		(30,573)
Interest accretion of Canadian Breeders Championships and other stake events - net		**-**		(6,006)
Net change in non-cash operating working capital				
Receivables		**(51,882)**		185,768
Supplies and prepaid expenses		**(41,389)**		14,416
Payables and accruals		**(232,854)**		(150,190)
Canadian Breeders Championships and other stake events		**(393,910)**		(44,348)
Due to consignors		**572,399**		(889,532)
Deferred revenue		**(20,931)**		(28,117)
Deferred membership revenue		**(38,435)**		(46,273)
		374,957		(770,981)
Financing				
Bank indebtedness		**(36,367)**		36,367
Repayment of term loans		**(15,378)**		(16,068)
		(51,745)		20,299
Investing				
Purchase of investments - net		**690,158**		(402,815)
Purchase of tangible capital assets		**(68,814)**		(36,254)
Lease inducement		**-**		(57,930)
Purchase and development of intangible capital assets		**(463,712)**		(203,415)
		157,632		(700,414)
Increase (decrease) in cash and cash equivalents		**480,844**		(1,451,096)
Cash and cash equivalents - beginning of year		**618,135**		2,069,231
Cash and cash equivalents - end of year	**$**	**1,098,979**	$	618,135

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 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.

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

Basis of Accounting

The Association follows accounting policies that conform with the 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.

The Association controls another not-for-profit organization – Peel Condominium Corporation No. 467 ("PCC"). The Association is the sole director of PCC and only significant source of revenue of PCC.

The Corporation has decided not to consolidate PCC, and will instead provide the required disclosures (Note 15) in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 4450.

Revenue recognition

Membership fees are voluntary and are recorded when received. 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.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Investment income is comprised of interest, dividends, realized gains (losses) and changes in 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.

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 money market funds quoted in an active market and must be measured at fair value, and the Canadian Breeders Championships and other stake events 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, bank indebtedness, investment in guaranteed investment certificates and treasury bills, receivables, payables and accruals, term loans and due to consignors.

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.

Lease inducement

Deferred lease inducement represents cash paid to a tenant for the benefit of the tenant pursuant to a lease agreement for premises owned by the Association. The lease inducement is amortized to occupancy costs over the term of the lease.

2. Summary of significant accounting policies (continued)

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

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. Revenues 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 of revenues 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, useful lives of capital and intangible assets and impairment of capital 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. First-time adoption of accounting standards for not-for-profit organizations

These financial statements are the first financial statements for which the Association has applied the Canadian accounting standards for not-for-profit organizations (“ASNPO”).

The date of the transition to ASNPO is November 1, 2011. The significant accounting policies presented in Note 2 to the financial statements were used to prepare the financial statements for the year ended October 31, 2013. The comparative period information and the opening statement of financial position as at the date of transition presented was prepared in accordance with ASNPO and the provisions set out in Section 1501 *First-time adoption*.

The Association’s transition from Canadian generally accepted accounting principles to ASNPO has had no significant impact on the opening net assets as of November 1, 2011 or the statement of operations, changes in net assets and cash flows for the year ended October 31, 2012.

As a result, although the statement of financial position as at November 1, 2011 has been provided, the reconciliations and disclosures required by Section 1501 *First-time adoption* for the net assets at the transition date, the comparative period excess of revenue over expenses and the statement of cash flows, are not necessary and have not been presented in these financial statement notes.

4. Investments

Short-term investments consist of equity, guaranteed investment certificates and treasury bills which bear interest at rates ranging from 1.65% to 3.2% (2012 - 1.7% to 3.2%, 2011 - 1.95% to 4.5%) and have maturities greater than three months and less than one year.

Long-term investments consist of guaranteed investment certificates and treasury bills, which bear interest at rates ranging from 1.9% to 2.6% for 2012 (2011 – 2.15% to 2.6%) and have maturities of greater than one year.

	October 31, 2013	October 31, 2012	November 1, 2011
GICs and treasury bills	**$ 1,460,678**	$ 2,027,680	$ 1,596,627
Canadian equity securities	**146,444**	268,404	266,069
	1,607,122	2,296,084	1,862,696
Less: short-term portion	**1,607,122**	1,108,384	661,559
	$ -	$ 1,187,700	$ 1,201,137

5. Lease inducement

During 2012, the Association made a payment to a tenant for leasehold improvements for the benefit of the tenant and are not considered to be improvements to the building. The lease inducement is recorded at a cost of $57,930 (2012 - $57,930, 2011 - nil) less accumulated amortization of $19,310 (2012 - $7,724, 2011 - nil).

6. Tangible capital assets

	Cost	Accumulated Amortization	**October 31, 2013 Net Book Value**	October 31, 2012 Net Book Value	November 1, 2011 Net Book Value
Land	$ 813,629	$ -	**$ 813,629**	$ 813,629	$ 813,629
Building and building Improvements	2,231,048	1,251,983	**979,065**	1,052,062	1,125,799
Leasehold improvements	282,083	282,083	**-**	28,429	84,845
Computer equipment	961,246	911,334	**49,912**	22,013	39,063
Other equipment	1,128,889	1,034,702	**94,187**	115,427	112,174
Vehicles	84,010	84,010	**-**	15,526	31,053
	$ 5,500,905	$ 3,564,112	**$ 1,936,793**	$ 2,047,086	$ 2,206,563

During the year, the Association discontinued using fully amortized assets and reversed cost and accumulated amortization of $637,481 (2012 - nil, 2011 - nil).

7. Intangible assets

Software is recorded at cost of $806,275 (2012 - $342,563, 2011 - $139,148) less accumulated amortization of $143,454 (2012 - $135,173, 2011 - $127,824).

Included in software is software under development costs of $658,981 (2012 - $198,643, 2011 - nil). Amortization of the software costs will commence upon utilization of the software.

8. Bank indebtedness

The Association has an operating facility totalling $250,000, which bears interest at the bank's prime lending rate, is unsecured and is repayable on demand.

At October 31, 2013, nil (2012 – $36,367, 2011 - nil) was recorded as bank indebtedness due to the issuance of cheques, which have not cleared the bank at year-end.

9. Accounts payable and accruals

	October 31, 2013	October 31, 2012	November 1, 2011
Accounts payable	$ 130,113	$ 304,705	$ 369,055
Accrued liabilities	168,871	338,237	276,171
Government remittances payable	102,790	(8,314)	139,592
	$ 401,774	$ 634,628	$ 784,818

10. Term Loans

	October 31, 2013	October 31, 2012	November 1, 2011
Loan payable – zero interest due September 2014, repayable in monthly principal instalments of $591.	$ 6,506	$ 13,602	$ 20,700
Loan payable – zero interest due June 2014, repayable in monthly principal instalments of $690.	5,521	13,803	22,773
	12,027	27,405	43,473
Less: current portion	12,027	15,378	15,378
	$ -	$ 12,027	$ 28,095

Principal repayments for 2014 are $12,027.

11. Due to consignors

Of the total balance due to consignors, $544,945 (2012 - $44,038, 2011 - $905,535) has been collected from third parties and is included in cash and cash equivalents. The remaining balance of $118,652 (2012 - $47,160, 2011 - $75,195) due to consignors has not yet been collected and is included in receivables.

12. Financial instruments

Fair value

The carrying amounts of cash and cash equivalents, bank indebtedness, investment in guaranteed investment certificates and treasury bills, receivables, payables and accruals, term loans and due to consignors approximate fair value because of the short term maturity of these financial instruments.

12. Financial instruments (continued)

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

The Canadian Breeders Championships and other stake events liabilities with maturities greater than one year have been discounted at the Association's average rate of return of 2.2% 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.

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 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 guaranteed investment certificates 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 $22,235 at October 31, 2013 (2012 - $25,817, 2011 - $23,000). 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.

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 government investment certificates and treasury bills. The Association invests in Canadian equities which are not subject to interest rate risk.

12. Financial instruments (continued)

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 $128,156 (2012 - $88,789, 2011 - $151,642) are translated at 0.9590 (2012 – 0.9996 (2011 – 0.9935).

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.

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.

13. 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 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.

14. Peel Condominium Corporation No. 467 (PCC) and related party transactions

PCC is a separate not-for-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.

14. Peel Condominium Corporation No. 467 (PCC) and related party transactions
(continued)

The financial statements of Standardbred Canada do not include the financial activities of PCC. Financial statements of PCC are available upon request. Financial summaries of PCC as at October 31, 2013 and 2012 and for the years ended October 31, 2013 and 2012 are as follows:

Peel Condominium Corporation	2013	2012
Statement of financial position		
Total assets	**$ 92,947**	$ 97,677
Total liabilities	**$ 9,740**	$ 12,513
Total fund balances	**$ 83,207**	$ 85,164
Statement of operations		
Total revenues	**$ 132,240**	$ 164,879
Total expenses	**134,198**	142,087
Excess of revenues over expenses (expenses over revenue)	**$ (1,958)**	$ 22,792
Statement of cash flows		
Cash from (used in) operations	**$ (4,728)**	$ 18,126
Increase in cash equivalents	**$ 3,683**	$ 33,061

During the year, Standardbred Canada paid $132,000 (2012 - $164,400) in condominium fees to PCC which has been included in occupancy costs in the statement of operations and received $14,400 (2012 - $14,400) with respect to management and administration fees which has been included in miscellaneous income in the statement of operations.

15. Contingencies

The Association, in the normal course of their operations, may be involved in legal claims from time to time. The Association will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. The Association has no reason to believe that any current or potential claims will have a material adverse impact on the Association's financial position.

16. Comparative figures

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