

FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended March 31, 2014
and Independent Auditors' Report to the Board of Directors

FORT ERIE LIVE RACING CONSORTIUM

FINANCIAL STATEMENTS
MARCH 31, 2014

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CHARTERED ACCOUNTANTS

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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, 2014, 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, 2014, 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

July 8, 2014



Big enough to know
SMALL ENOUGH TO CARE

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED MARCH 31, 2014

	March 31, 2014 <u>(12 Months)</u>	March 31, 2013 <u>(3 Months)</u>	December 31, 2012 <u>(12 Months)</u>
REVENUE			
Net proceeds from pari-mutuel wagering (Note 7)	\$ 4,491,906	\$ 780,059	\$ 5,507,698
Slot machine commissions	-	2,097,404	8,224,078
Food and beverage	496,777	11,711	1,488,469
Grant - Town of Fort Erie	-	-	500,000
Transitional Funding - OMAF	5,500,000	-	-
Other	209,667	20,217	548,970
	<u>10,698,350</u>	<u>2,909,391</u>	<u>16,269,215</u>
PURSES			
Generated from pari-mutuel wagering	2,710,672	351,119	2,576,584
Generated from slot machine commissions	-	677,741	2,624,078
Reduction for extension of racing days	-	-	(118,975)
	<u>2,710,672</u>	<u>1,028,860</u>	<u>5,081,687</u>
REVENUE LESS PURSES	<u>7,987,678</u>	<u>1,880,531</u>	<u>11,187,528</u>
EXPENSES			
Depreciation	51,436	15,119	60,476
Other operating expenses (net of recoveries)	4,419,998	589,043	5,145,207
Rent	395,000	150,000	450,000
Salaries, wages and benefits	3,485,674	569,703	5,509,845
	<u>8,352,108</u>	<u>1,323,865</u>	<u>11,165,528</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(364,430)	556,666	22,000
SURPLUS, BEGINNING OF YEAR	676,835	128,312	1,637
CHANGE IN NET ASSETS INVESTED IN CAPITAL			
ASSETS (Note 5)	51,436	15,119	60,476
CHANGE IN ADMINISTRATIVE RESERVE (Note 6)	(174,366)	(23,262)	44,199
SURPLUS, END OF YEAR	\$ 189,475	\$ 676,835	\$ 128,312

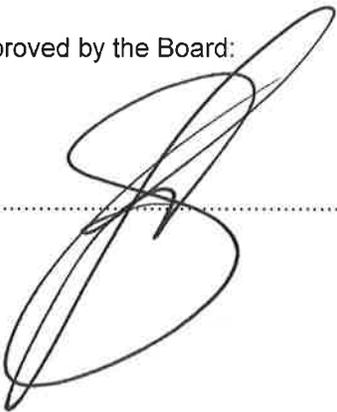
FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2014

	March 31, 2014	March 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash	\$ 1,215,614	\$ 1,397,650	\$ 1,126,422
Restricted cash	-	1,590,243	556,839
Accounts receivable	263,153	359,072	672,133
Inventory	34,062	31,641	36,609
Prepaid expenses	47,210	47,394	8,749
	1,560,039	3,426,000	2,400,752
Capital assets (Note 2)	64,922	116,358	131,477
	\$ 1,624,961	\$ 3,542,358	\$ 2,532,229
LIABILITIES			
Accounts payable and accrued liabilities (Note 3)	\$ 917,135	\$ 2,470,102	\$ 2,016,639
Lease commitment (Note 4)			
	917,135	2,470,102	2,016,639
NET ASSETS			
Investment in capital assets (Note 5)	64,922	116,358	131,477
Administrative reserve (Note 6)	453,429	279,063	255,801
Unrestricted surplus	189,475	676,835	128,312
	707,826	1,072,256	515,590
	\$ 1,624,961	\$ 3,542,358	\$ 2,532,229

Approved by the Board:



..... Director



..... Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2014

	March 31, 2014 <u>(12 Months)</u>	March 31, 2013 <u>(3 Months)</u>	December 31, 2012 <u>(12 Months)</u>
OPERATING ACTIVITIES			
Excess (deficiency) of revenue over expenses	\$ (364,430)	\$ 556,666	22,000
Depreciation, an item not affecting cash	51,436	15,119	60,476
	(312,994)	571,785	82,476
Changes in non-cash operating assets and liabilities			
Restricted cash	1,590,243	(1,033,404)	1,542,449
Accounts receivable	95,919	313,061	711,224
Inventory	(2,421)	4,968	43,398
Prepaid expenses	184	(38,645)	534,239
Accounts payable and accrued liabilities	(1,552,967)	453,463	(2,040,139)
Advance from related party	-	-	(400,000)
INCREASE (DECREASE) IN CASH	(182,036)	271,228	473,647
CASH, BEGINNING OF YEAR	1,397,650	1,126,422	652,775
CASH, END OF YEAR	\$ 1,215,614	\$ 1,397,650	\$ 1,126,422

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

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 and quarter 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. Restricted cash represents funds held by the Ontario Racing Commission primarily for the payment of purses.

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, 2014

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.

Employee future benefits

The Corporation has a defined benefit pension plan for its employees, the benefits of which are based on years of service and final average salary. The Corporation accrues its obligations under the defined benefit pension plan as the employees render the services necessary to earn the pension benefits. The actuarial determination of the accrued benefit obligations for pensions is based on the funding valuation. All past service costs and actuarial gains and losses are recognized in the period in which they arise. The most recent actuarial valuation of the pension plan for funding purposes was as of November 1, 2012. The Corporation uses a roll-forward technique to estimate the accrued benefit obligation at year-end.

The Corporation accounts for its defined benefit pension plan using the immediate recognition approach whereby the Company recognizes the cost of the plan for the period plus the change in the accrued benefit obligation net of the change in the fair value of the plan assets.

The Corporation also has a defined contribution plan covering certain employees. There are no prior service costs associated with the plan. The Corporation follows the policy of funding retirement plan contributions as accrued.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

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.

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 pension obligation. 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.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

2. CAPITAL ASSETS

	March 31, 2014		March 31, 2013		December 31 2012	
Assets at Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Net Book Value	Net Book Value	Net Book Value
Buildings	76,113	\$ 49,940	\$ 26,173	\$ 39,659	\$ 44,029	
Machinery and equipment	181,357	142,607	38,749	76,699	87,448	
	\$ 257,470	\$ 192,547	\$ 64,922	\$ 116,358	\$ 131,477	

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	March 31, 2013	December 31 2012
Trade accounts payable and accrued liabilities	\$ 533,191	\$ 584,823	\$ 1,015,539
Horsepeople's deposits	237,539	252,366	263,631
Purse account underpayments	50,279	1,484,950	562,440
Government remittances	-	-	26,715
Pension obligation (Note 8)	96,126	147,963	148,314
	\$ 917,135	\$ 2,470,102	\$ 2,016,639

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

4. 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:

Years ending	2015	\$ 395,000
	2016	395,000
	2017	<u>395,000</u>
		\$ 1,185,000

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

5. NET ASSETS INVESTED IN CAPITAL ASSETS

	March 31, 2014	March 31, 2013	December 31 2012
Balance, beginning of year	\$ 116,358	\$ 131,477	191,953
Depreciation during the year	(51,436)	(15,119)	(60,476)
Balance, end of year	\$ 64,922	\$ 116,358	131,477

6. ADMINISTRATIVE RESERVE

	March 31, 2014	March 31, 2013	December 31 2012
Balance, beginning of year	\$ 279,063	\$ 255,801	300,000
Add: Appropriation by Board of Directors	207,766	30,000	120,000
Less: Severance payments	(33,400)	(6,738)	(164,199)
Balance, end of year	\$ 453,429	\$ 279,063	255,801

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.

7. 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 \$684,320 (2013 - \$NIL; 2012 - \$1,172,636).

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

8. PENSION PLANS

The Corporation maintains a contributory defined benefit pension plan and a contributory defined contribution pension plan, both of which were transferred from Nordic effective June 30, 2010.

The Corporation has submitted a wind up plan for the defined benefit plan effective June 30, 2013. Subsequent to year end, the Financial Services Commissions of Ontario approved this plan and as a result the Corporation has accrued the funding required to close out this plan

The Corporation's expense for the defined contribution pension plan was \$24,005 (2013 - \$4,923 ; 2012 - \$33,220).

The funded status of the defined benefit plans after contributions of \$7,086 (2013 - \$2,306; 2012 - \$81,647) during the year is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Fair value of plan assets	\$ 230,947	\$ 241,622	325,214
Accrued benefit obligation	<u>327,073</u>	<u>389,936</u>	<u>473,528</u>
Funded status - plan deficit	<u>\$ (96,126)</u>	<u>\$ (148,314)</u>	<u>(148,314)</u>

The plan deficit amount of \$148,314 was expensed in the 2012 fiscal year. A further \$30,000 was expensed in the 2014 fiscal year.

The plan assets are invested in cash and short term investments.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation for the plan are as follows:

Expected long-term rate of return on plan assets	4.00%
Rate of compensation increase	Implicitly recognized in the interest rate

9. 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, 2014

10. 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, 2014, trade accounts receivable held in US currency were \$5,167 (2013 - \$6,598; 2012 - \$62,056), US trade accounts payable were \$130,787 (2013 - \$150,205; 2012 - \$199,513) and cash balances in US were \$271,641 (2013 - \$121,004; 2012 - \$111,119). 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.

11. ECONOMIC DEPENDENCE

The Corporation will be receiving a significant portion of its revenue pursuant to an agreement with the Provincial Government as noted in Note 13. Should these contributions cease, the Corporation would need to develop different revenue sources or consider radical changes in operations.

12. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.

13. SUBSEQUENT EVENTS

Subsequent to the year end, the Provincial Government and the Fort Erie Live Racing Consortium announced that a transitional funding agreement has been reached, which will ensure the continuation of live racing for the upcoming season.
