

FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended March 31, 2018
and Independent Auditors' Report to the Board of Directors

FORT ERIE LIVE RACING CONSORTIUM
FINANCIAL STATEMENTS
MARCH 31, 2018

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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, 2018, 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, 2018, 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.

Amended Financial Statements

Without modifying our opinion, we draw attention to Note 9 to the financial statements, which explains that the financial statements for the year end March 31, 2018 have been amended from those on which we originally reported on July 10, 2018.

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

July 10, 2018, except as to Note 9, which is as of August 28, 2018



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FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Net proceeds from pari-mutuel wagering (Note 8)	\$ 1,810,030	\$ 1,947,828
Food and beverage	550,133	542,023
Funding - The Ontario Lottery and Gaming Corporation (Note 9)	7,900,000	7,900,000
Grant - Town of Fort Erie	-	250,000
Other	156,820	169,113
	10,416,983	10,808,964
PURSES		
Generated from pari-mutuel wagering	809,629	881,376
Contributions from The Ontario Lottery and Gaming Corporation (Note 9)	2,686,000	2,686,000
	3,495,629	3,567,376
REVENUE LESS PURSES	6,921,354	7,241,588
EXPENSES		
Depreciation	46,974	37,200
Other operating expenses	3,450,682	3,477,063
Rent	406,850	395,000
Salaries, wages and benefits	3,229,564	3,169,761
	7,134,070	7,079,024
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(212,716)	162,564
SURPLUS, BEGINNING OF YEAR	385,136	299,076
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS (Note 6)	9,053	(43,795)
CHANGE IN ADMINISTRATIVE RESERVE (Note 7)	-	(32,709)
SURPLUS, END OF YEAR	\$ 181,473	\$ 385,136

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash (Note 2)	\$ 1,150,681	\$ 1,561,953
Accounts receivable	78,626	59,806
Inventory	42,834	36,535
Prepaid expenses	43,573	24,749
	1,315,714	1,683,043
Capital assets (Note 3)	120,775	129,828
	\$ 1,436,489	\$ 1,812,871
LIABILITY		
Current liability		
Accounts payable and accrued liabilities (Note 4)	\$ 580,615	\$ 744,281
Lease commitment (Note 5)		
NET ASSETS		
Investment in capital assets (Note 6)	120,775	129,828
Administrative reserve (Note 7)	553,626	553,626
Unrestricted surplus	181,473	385,136
	855,874	1,068,590
	\$ 1,436,489	\$ 1,812,871

Approved by the Board:

..... Director

..... Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (212,716)	\$ 162,564
Depreciation, an item not affecting cash	46,974	37,200
	(165,742)	199,764
Changes in non-cash operating assets and liabilities		
Accounts receivable	(18,820)	23,271
Inventory	(6,299)	(1,582)
Prepaid expenses	(18,824)	5,901
Accounts payable and accrued liabilities	(163,666)	(144,365)
	(373,351)	82,989
INVESTING ACTIVITY		
Purchase of capital assets	(37,921)	(80,995)
	(411,272)	1,994
INCREASE (DECREASE) IN CASH	(411,272)	1,994
CASH, BEGINNING OF YEAR	1,561,953	1,559,959
CASH, END OF YEAR	\$ 1,150,681	\$ 1,561,953

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

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.

Inventory expensed during the year amounted to \$246,211 (2017 - \$240,031)

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

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, 2018

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 Corporation's obligations in the event it is ever unable to continue operations.

2. CASH

	<u>2018</u>	<u>2017</u>
Operational fund bank	\$ 284,036	\$ 732,723
Purse fund bank	79,747	177,810
Cash and other bank accounts	786,898	651,420
	\$ 1,150,681	\$ 1,561,953

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

3. CAPITAL ASSETS

	<u>2018</u>		<u>2017</u>	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Buildings	\$ 76,113	\$ 76,113	\$ 76,113	\$ 76,113
Machinery and equipment	417,715	296,940	379,794	249,966
	493,828	373,053	455,907	326,079
Net book value		\$ 120,775		\$ 129,828

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2018</u>	<u>2017</u>
Trade accounts payable and accrued liabilities	\$ 343,351	\$ 369,085
Horsepeople's deposits	269,505	267,059
Purse account (overpayments) underpayments	(32,241)	108,137
	<u>\$ 580,615</u>	<u>\$ 744,281</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 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 2019	\$ 419,055
2020	431,629
2021	444,576
2022	<u>457,913</u>
	<u>\$ 1,753,173</u>

6. NET ASSETS INVESTED IN CAPITAL ASSETS

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 129,828	\$ 86,033
Additions during the year	37,921	80,995
Depreciation during the year	(46,974)	(37,200)
	<u>\$ 120,775</u>	<u>\$ 129,828</u>

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

7. ADMINISTRATIVE RESERVE

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 553,626	\$ 520,917
Add: Appropriation by Board of Directors	-	36,000
Less: Severance Payments	-	(3,291)
Balance, end of year	<u>\$ 553,626</u>	<u>\$ 553,626</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.

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 \$714,327 (2017 - \$867,681).

9. FUNDING - ONTARIO LOTTERY AND GAMING CORPORATION (Amended)

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. 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.

Please refer to note 15 for further information on funding agreement.

Subsequent to the financial statements being approved by the board of directors, it was determined that the financial statements were issued indicating that funding was received from The Alcohol and Gaming Commission of Ontario, when in fact the funding was received from the Ontario Lottery and Gaming Corporation. The financial statements have been since amended to include the name of the proper funding source.

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 \$144,072. 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, 2018

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, 2018, trade accounts receivable held in US currency were \$4,501 (2017 - \$3,763), US trade accounts payable were \$45,120 (2017 - \$34,525) and cash balances in US were \$176,104 (2017 - \$208,341). 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.

15. SUBSEQUENT EVENTS

Subsequent to the year end, the existing funding agreement ending March 31, 2019, as described in note 9, was amended to increase funding by \$500,000 for total maximum funding of \$8,400,000. No other changes were made to this agreement.

On May 8, 2018, The Ontario Racing (OR) Board of Directors announced a historic 19 year funding agreement with the Ontario Government. As a result, the Corporation will be entering into a new agreement, which becomes effective April 1, 2019 which will guarantee a minimum funding of \$8,400,000 for the 2019/20 and the 2020/21 fiscal year end.
