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Financial statements

Standardbred Canada
(Incorporated under the Animal Pedigree Act)

October 31, 2012

Contents

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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, 2012, 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 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 as at October 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Mississauga, Canada
January 24, 2013

Chartered accountants
Licensed Public Accountants

Standardbred Canada
Statement of operations

For the year ended October 31	2012	2011
Revenue		
Membership dues and licensing fees	**$ 922,636**	$ 931,877
Track fees	**847,303**	842,482
Membership services	**1,225,299**	1,324,506
Identification	**235,391**	292,724
Trot magazine	**1,077,028**	1,149,981
Horse sales	**477,679**	740,814
Pedigree and stake services	**89,509**	89,173
Computer services	**949,610**	842,695
Rent	**57,830**	49,277
Investment income	**58,207**	41,255
Miscellaneous income	**149,641**	208,401
Marketing programs and business development	**12,812**	32,535
	6,102,945	6,545,720
Expenses		
General and administrative	**1,706,714**	1,566,778
Information technology	**1,082,822**	1,098,959
Customer services	**803,585**	976,354
Member insurance	**257,851**	253,825
Identification	**280,049**	286,356
Horse sales	**424,422**	571,039
Trot magazine	**667,271**	748,822
Industry marketing and business development	**250,052**	287,134
Sales and stakes	**114,140**	138,274
Travel and meetings	**112,488**	123,680
Occupancy costs	**308,901**	306,061
Industry and government relations	**81,580**	34,701
	6,089,875	6,391,983
Excess of revenue over expenses	**$ 13,070**	$ 153,737

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	**2012 Total**	2011 Total
Net assets - beginning of year	$ 1,119,865	$ 2,217,887	$ 46,840	$ 300,000	**$ 3,684,592**	$ 3,530,855
Excess of revenue over expenses	216,151	(203,081)	-	-	**13,070**	153,737
Unrealized gain related to fair value of liabilities	6,006	-	(6,006)	-	-	-
Transfer for purchase of capital and intangible assets	(239,668)	239,668	-	-	**-**	-
Net assets - end of year	$ 1,102,354	$ 2,254,474	$ 40,834	$ 300,000	**$ 3,697,662**	$ 3,684,592

See accompanying notes to the financial statements.

Standardbred Canada
Statement of financial position

October 31	2012	2011
Assets		
Current		
Cash and cash equivalents	**$ 618,135**	$ 2,069,231
Investments (Note 3)	**1,108,384**	661,559
Receivables	**555,513**	741,281
Supplies and prepaid expenses	**72,443**	86,859
	2,354,475	3,558,930
Investments (Note 3)	**1,187,700**	1,201,137
Lease inducement (Note 4)	**50,206**	-
Property and equipment (Note 5)	**2,047,086**	2,206,563
Software (Note 6)	**207,390**	11,324
	$ 5,846,857	$ 6,977,954
Liabilities		
Current		
Bank indebtedness (Note 7)	**$ 36,367**	$ -
Payables and accruals	**634,628**	784,818
Current portion of term loans (Note 8)	**15,378**	15,378
Due to consignors (Note 9)	**91,198**	980,730
Canadian Breeders Championships and other stake events	**348,020**	397,022
Deferred revenue	**128,585**	156,702
Deferred membership revenue	**478,163**	524,436
	1,732,339	2,859,086
Canadian Breeders Championships and other stake events	**404,829**	406,181
Term loans (Note 8)	**12,027**	28,095
	2,149,195	3,293,362
Net assets		
Unrestricted	**1,102,354**	1,119,865
Invested in property and equipment	**2,254,474**	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
	3,697,662	3,684,592
	$ 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	**2012**	2011
Increase (decrease) in cash and cash equivalents		
Cash from operations		
Excess of revenue over expenses	**$ 13,070**	$ 153,737
Non-cash items		
Amortization – property and equipment	**195,731**	225,796
Amortization – lease inducement	**7,724**	-
Amortization – software	**7,349**	-
Unrealized (gain) loss on investments	**(30,573)**	1,354
Interest accretion of Canadian Breeders Championships and other stake events - net	**(6,006)**	4,851
Net change in non-cash operating working capital		
Receivables	**185,768**	154,920
Supplies and prepaid expenses	**14,416**	(1,854)
Payables and accruals	**(150,190)**	257,340
Canadian Breeders Championships and other stake events	**(44,348)**	(11,488)
Due to consignors	**(889,532)**	(334,925)
Deferred revenue	**(28,117)**	17,010
Deferred membership revenue	**(46,273)**	8,182
	(770,981)	474,923
Financing		
Bank indebtedness	**36,367**	-
Repayment of term loans	**(16,068)**	(15,378)
	20,299	(15,378)
Investing		
Purchase of investments - net	**(402,815)**	143,971
Purchase of property and equipment	**(36,254)**	(111,537)
Lease inducement	**(57,930)**	-
Software development costs capitalized	**(203,415)**	-
	(700,414)	32,434
Increase (decrease) in cash and cash equivalents	**(1,451,096)**	491,979
Cash and cash equivalents - beginning of year	**2,069,231**	1,577,252
Cash and cash equivalents - end of year	**$ 618,135**	$ 2,069,231

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

The Association follows accounting policies that conform with Canadian Generally Accepted Accounting Principles 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.

Basis of Accounting

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 12) 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

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.

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, bank indebtedness, short and long-term investments and Canadian Breeders Championships and other stake events liabilities have been classified as held for trading. Receivables have been classified as loans and receivables. Payables and accruals, term loans and due to consignors have been classified as other financial liabilities.

As permitted by the Accounting Standards Board, the Association has chosen to apply CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation, in place of Section 3862 – Financial Instruments – Disclosure and Section 3863 – Financial Instruments – Presentation.

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)

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of the assets, 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

Software

Software is stated at cost less accumulated amortization. Amortization is provided at rates designed to charge to operations the cost of the asset, on a straight-line basis over the estimated useful life of the asset.

Purchased software is amortized over its useful life of three years.

During the year, the Association began internally developing software. 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.

Impairment of 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, 2012.

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.

2. Summary of significant accounting policies (continued)

Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

Future accounting policies

On December 31, 2010, the Accounting Standards Board 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. Not-for-profit organizations maintain the option to adopt International Financial Reporting Standards. Early adoption is permitted. The Association has decided to adopt Part III ASNPO for the fiscal year beginning November 1, 2012 but has not yet assessed the impact of these new standards on its financial statements.

3. Investments

Short-term investments consist of equity, guaranteed investment certificates and treasury bills which bear interest at rates ranging from 1.7% to 3.2% and have maturities of less than 365 days.

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

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

4. Lease inducement

During the year, 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 (2011 – nil) less accumulated amortization of $7,724 (2011 – nil).

5. Property and equipment

							2012		2011
		Cost		Accumulated Amortization			**Net Book Value**		Net Book Value
Land	$	813,629	$	-		**$**	**813,629**	$	813,629
Building and building improvements		2,231,048		1,178,986			**1,052,062**		1,125,799
Leasehold Improvements		282,083		253,654			**28,429**		84,845
Computer equipment		1,529,914		1,507,901			**22,013**		39,063
Other equipment		1,128,889		1,013,462			**115,427**		112,174
Vehicles		84,010		68,484			**15,526**		31,053
	$	6,069,573	$	4,022,487		**$**	**2,047,086**	$	2,206,563

6. Software

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

Included in software is software under development costs of $198,643. Amortization of the software costs will commence upon utilization of the software.

7. 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, 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.

8. Term Loan

	2012	2011
Loan payable – zero interest due September 2014, repayable in monthly principal instalments of $591.	**$ 13,602**	$ 20,700
Loan payable – zero interest due June 2014, repayable in monthly principal instalments of $690.	**13,803**	22,773
	27,405	43,473
Less: current portion	**15,378**	15,378
	$ 12,027	$ 28,095

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

2013	$ 15,378
2014	12,027
	$ 27,405

9. Due to consignors

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

10. Financial instruments

Fair value

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

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

The Canadian Breeders Championships and other stake events liabilities 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.

10. Financial instruments (continued)

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 $25,817 at October 31, 2012 (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.

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 $88,789 (2011 - $151,642) are translated at 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.

10. Financial instruments (continued)

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.

11. 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.

12. Peel Condominium Corporation No. 467 (PCC)

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.

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

During the year, Standardbred Canada paid $164,400 (2011 - $164,400) in condominium fees to PCC which has been included in occupancy costs in the statement of operations and received $14,400 (2011 - $14,400) with respect to management and administration fees which has been included in miscellaneous income in the statement of operations.

13. 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.

14. Comparative figures

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

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