

Financial statements of

**ONTARIO HARNESS HORSE ASSOCIATION**

November 30, 2012

# *Tinkham & Associates LLP*

CHARTERED ACCOUNTANTS

*D C Tinkham, B Comm, CMC, FCA*

*Associates*

*P J Brocklesby, BBA, CA*

*M Tkachenko, BBA, CA*

*O B Fife, BA, CA*

*MWG Rooke, BBA, CA*

*A C Callas, BA, CA*

2842 Bloor Street West, Suite 300  
Toronto, Ontario, Canada M8X 1B1

Telephone (416) 233-2139

1(877) 283-3305

Facsimile (416) 233-1788

associates@tinkhamca.com

## INDEPENDENT AUDITOR'S REPORT

To the Members of  
**Ontario Harness Horse Association**

We have audited the accompanying financial statements of Ontario Harness Horse Association, which comprise the balance sheet as at November 30, 2012, and the statements of income and 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 Ontario Harness Horse Association as at November 30, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 3 in the financial statements which describes the existence of a material uncertainty that may cast significant doubt about the Association's ability to continue as a going concern.

Toronto, Ontario  
January 9, 2013

*Tinkham & Associates LLP*  
CHARTERED ACCOUNTANTS

**Licensed Public Accountants**

# ONTARIO HARNESS HORSE ASSOCIATION

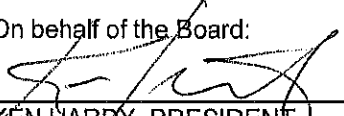
## Balance Sheet

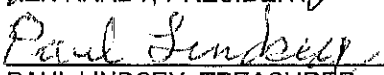
As at November 30	2012	2011
<b>Assets</b>		
Current		
Cash	\$ 61,207	\$ 85,485
Restricted cash (note 5)	457,521	337,326
Dues receivable	144,540	243,830
Other receivables (note 6)	1,617	3,469
Prepaid expenses	35,826	41,329
	700,711	711,439
Capital assets (note 7)	34,610	44,366
	\$ 735,321	\$ 755,805
<b>Liabilities &amp; Net Assets</b>		
Current		
Accounts payable and accrued liabilities	\$ 42,403	\$ 83,230
Deferred revenue (note 8)	17,554	16,671
Funds held from Purse Distribution and SRA (note 5)	457,521	337,326
	517,478	437,227
Long term		
Deferred revenue (note 8)	15,422	16,278
Deferred contribution (note 9)	1,871	2,662
	17,293	18,940
Contingent liabilities (note 11)		
Net assets	200,550	299,638
	\$ 735,321	\$ 755,805

Commitment (note 10)

See accompanying notes to financial statements.

On behalf of the Board:

  
KEN HARDY, PRESIDENT

  
PAUL LINDSEY, TREASURER

**ONTARIO HARNESS HORSE ASSOCIATION**  
Statement of Income and Changes in Net Assets

Year ended November 30	2012	2011
<b>Income</b>		
Track revenue (note 2b)	\$ 952,637	\$ 989,276
Membership fees	21,232	33,401
Amortization of deferred contribution (note 9)	791	1,140
Standardbred revenue allocation administration services (note 6)	676	972
COSA	-	34,061
	<b>975,336</b>	<b>1,058,850</b>
<b>Expenses</b>		
Member and groom assistance	280,324	376,137
Salaries and benefits	248,054	249,522
Professional	163,805	294,566
General office administration	103,936	199,218
Board of directors	96,600	95,722
Insurance	90,716	106,282
Donations	65,898	43,204
Marketing	24,676	16,263
Amortization of capital assets	9,756	11,331
Member administration	9,284	13,679
Bad debt expense (recovery)	(16,694)	69,354
	<b>1,076,355</b>	<b>1,475,278</b>
Net loss from operations	<b>(101,019)</b>	<b>(416,428)</b>
Interest income	1,931	1,074
Net operating loss for the year	<b>(99,088)</b>	<b>(415,354)</b>
Net assets, beginning of year	299,638	714,992
Net assets, end of year	<b>\$ 200,550</b>	<b>\$ 299,638</b>

See accompanying notes to financial statements.

**ONTARIO HARNESS HORSE ASSOCIATION**

## Statement of Cash Flows

Year ended November 30	2012	2011
Cash provided (used) by operating activities		
Net operating loss for the year	\$ (99,088)	\$ (415,354)
Charges not affecting cash		
Amortization of capital assets	9,756	11,331
Amortization of deferred contribution	(791)	(1,140)
	<b>(90,123)</b>	<b>(405,163)</b>
Changes in non-cash balances from operations		
Dues receivable	99,290	77,787
Other receivables	1,852	48,013
Prepaid expenses	5,503	(1,125)
Accounts payable and accrued liabilities	(40,827)	36,301
Deferred revenue	27	(5,791)
	<b>65,845</b>	<b>155,185</b>
	<b>(24,278)</b>	<b>(249,978)</b>
Cash used by investing activities		
Purchase of capital assets	-	(18,820)
Decrease in unrestricted cash during the year	<b>(24,278)</b>	<b>(268,798)</b>
Unrestricted Cash, beginning of year	<b>85,485</b>	<b>354,283</b>
Unrestricted Cash, end of year	<b>\$ 61,207</b>	<b>\$ 85,485</b>

See accompanying notes to financial statements.

# ONTARIO HARNESS HORSE ASSOCIATION

## Notes to the Financial Statements

November 30, 2012

---

### 1 Organization

The Ontario Harness Horse Association is a non-profit organization incorporated without share capital for the purpose of encouraging, improving and promoting the breeding and racing of trotting and pacing horses. The Association is not subject to income taxes pursuant to exemptions accorded to non-profit organizations in the income tax legislation.

The Ontario Harness Horse Association administers several programs which are not reflected in these financial statements as follows:

#### (a) Benevolent funds

The Ontario Harness Horse Association and several individual racetracks have established special benevolent funds to provide financial assistance to drivers, trainers, grooms, and their families connected with these racetracks, in the event of injury, or death. The Ontario Harness Horse Association administers but does not contribute to the funds and accordingly these funds are not reflected in the financial statements of the Association.

#### (b) Standardbred revenue allocation program (SRA)

The Ontario Harness Horse Association administers the 1% SRA on behalf of the Ontario Horsemen for the purpose of funding the following programs:

Ontario Sires Stakes  
Overnight Purse Supplement  
Industry Marketing Program  
Horsemen's Group Retirement Plan

The SRA program commenced September 1, 1996, and the Ontario Harness Horse Association holds the SRA funds in trust. Accordingly, the SRA funds are not reflected in the financial statements of the Association.

### 2 Accounting policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

#### (a) Capital assets and amortization

Capital assets are recorded at historical cost. Amortization is provided over their estimated useful lives, 1/2 in the year of addition. Office and computer equipment, computer software, vehicle and trailer are provided for on a declining balance basis at rates ranging from 20% to 30% per annum. Website development costs are provided for on a straight line basis over 5 years.

#### (b) Revenue recognition

The organization follows the deferral method of accounting for contributions. Unrestricted contributions, are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

##### Membership fees

Members have the option of paying membership dues in advance for one, three or five years. Memberships expire on the member's birth date. Membership fees received for future years are deferred and amortized into revenue over the membership term.

# ONTARIO HARNESS HORSE ASSOCIATION

## Notes to the Financial Statements

November 30, 2012

---

### 2 Accounting policies continued

#### (b) Revenue recognition continued

##### Track revenue

Track revenue is comprised of insurance and dues. Insurance is acquired by the Association and billed to racetracks based on the number of live race days at each. Dues are calculated at 1.5% of either the aggregate purse pool or purses paid of certain supervised harness racetracks in Ontario. Management has recorded estimated dues for 2012 based on purse statements prepared by the racetracks which are subject to Ontario Racing Commission (ORC) review. It is reasonably possible that the estimated revenue recorded could change by a material amount upon receipt of the reviewed purse statements. Adjustments to the track revenue estimates arising upon receipt of the purse statements from the ORC will be accounted for in the year in which the Association receives the reports.

In addition, the Association has requested ORC assistance in resolving outstanding issues in purse statements dating back to 2003 for certain racetracks. It is reasonably possible that the estimated receivable amount recorded for these years could change by a material amount upon resolution of the outstanding issues. Adjustments to the track receivable amounts recorded will be accounted for in the year in which the issues are resolved.

#### (c) Financial instruments

Cash, dues receivable and other receivables are classified as available for sale and measured at fair value. Accounts payable and accrued liabilities and funds held from Purse Distribution and SRA are classified as other financial liabilities and measured at amortized cost.

#### (d) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates 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. The allowance for doubtful accounts represents a significant estimate in these financial statements. Actual results could differ from management's best estimates as additional information becomes available in the future.

### 3 Going Concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the organization be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations and at amounts different from those in the accompanying financial statements.

In early 2012, the Ontario government announced their intention to modernize gaming and end the revenue sharing agreement with the horse racing industry. Since the Ontario Harness Horse Association is funded by a percentage of the total purses paid at the racetracks at which it negotiates contracts, management is concerned that the reduction in revenues for purses will lead to reduced revenue to fund the operations of the Association. This anticipated reduction in track revenue combined with the operating losses of the past four fiscal years may impair the Associations' ability to continue to operate in the future. The association is pursuing an increase in the track dues from 1.5% to 3.0% , exploring means to increase other revenue flows, and evaluating the operational expenses of the Association. The organization's continuance as a going concern is dependent upon its ability to increase revenues and/or decrease expenditures to reach at least break-even levels of operation. It is not possible to predict whether the organization will attain such a position in the next fiscal year.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the organization be unable to continue in existence.

# ONTARIO HARNESS HORSE ASSOCIATION

## Notes to the Financial Statements

November 30, 2012

### 4 Financial instruments

The Association's financial instruments are comprised of cash, dues and other receivables, accounts payable and accrued liabilities and funds held from Purse Distribution and SRA. The fair values approximate their carrying values due to their short term nature or capacity for prompt liquidation. In the Association's opinion, there are no significant credit, market, interest rate or currency risks arising from its financial instruments.

### 5 Restricted cash

In 2011, the Association transferred \$320,155 from the purse distribution account which OHHA previously maintained pursuant to the terms of its purse account manager licence (see note 11). These funds were transferred without the approval of the ORC.

The Association loaned \$190,448 to the purse distribution account in prior years and is seeking to recover all or a portion of this loan. It is reasonable to expect part or all of this loan is included in the transfer of the \$320,155 and once approved by the ORC, any recoveries will be accounted for as income in the year approved.

The Association has also transferred \$137,365 to date on account of administration fees (see note 6) from the Standardbred Revenue Allocation account without the approval of the ORC. The ORC has not disallowed the administration fee request made by OHHA for the current fiscal year.

Until such time as the cash transfers are approved, the cash is restricted in use and the Association is not permitted to utilize this cash for operations.

### 6 Other receivables and Standardbred Revenue Allocation administration services revenue

Other receivables is comprised of amounts due from the Standardbred Revenue Allocation (SRA) program which OHHA administers for reimbursement of expenses paid. OHHA has recorded revenues in the amount of \$676 (2011 - \$972) for administering the program during the fiscal year.

SRA revenues and expenses are subject to the Ontario Racing Commission's (ORC) annual review and approval. The SRA accounts have not been reviewed by the ORC since October 1, 2003 and any amounts not approved by the ORC will be accounted for in the year of review.

The ORC has not approved the SRA administration fee for the current or prior fiscal years and therefore no revenue has been recognized. Administration fees will be recorded as revenue if approval is received.

### 7 Capital assets

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 162,719	\$ 150,465	\$ 162,719	\$ 147,405
Computer equipment	100,160	92,902	100,160	91,090
Computer software	18,067	17,951	18,067	17,831
Vehicle	46,276	44,695	46,276	44,023
Trailer	37,950	36,103	37,950	35,311
Website development costs	16,504	4,950	16,504	1,650
	<b>\$ 381,676</b>	<b>\$ 347,066</b>	<b>\$ 381,676</b>	<b>\$ 337,310</b>
Net book value		<b>\$ 34,610</b>		<b>\$ 44,366</b>



# ONTARIO HARNESS HORSE ASSOCIATION

## Notes to the Financial Statements

November 30, 2012

---

### 11 Contingent liabilities

Pursuant to the terms of its purse account manager licence issued annually by the Ontario Racing Commission, OHHA is contingently liable for any monies paid out as purse cheques for the thirteen racetracks in Ontario for which funds have not yet been received. The Association had issued purse cheques in prior years before receiving the funds from the racetracks. The amount funded as at November 30, 2012 is subject to ORC approval and, until OHHA has completed the process of verification of the reconciliation and collection of monies due, the amount of any potential liability or recovery cannot be reasonably estimated. During 2011 the Association transferred the cash held in the Purse distribution account as described in note 5 without ORC approval.

OHHA also has a contingent liability as at November 30, 2012 due to an appeal of an ORC ruling demanding a payment of \$100,000 for costs incurred by the ORC arising from a prior year's inquiry.

The amounts which may be payable as matters are resolved may be material but the likelihood of the outcomes are unknown and therefore no amounts have been accrued in these financial statements to date. Any amounts due will be recorded when known.

### 12 Related party transactions

The Association had the following transactions with Directors and Officers during the year:

	2012	2011
Honorarium to OHHA President	\$ 30,000	\$ 30,000
Remuneration to Directors and Officers for attendance at meetings	17,025	15,935

These transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at year-end, all amounts unpaid related to these transactions have been included in accounts payable and accrued liabilities.