

Financial Statements of

**SEARCHMONT SKI  
ASSOCIATION INC.**

Year ended April 30, 2016



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Searchmont Ski Association Inc.

We have audited the accompanying financial statements of Searchmont Ski Association Inc., which comprise the statement of financial position as at April 30, 2016, the statements of operations and changes in deficit and cash flows for the year then ended, and notes, comprising 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.

### *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 our 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, we consider 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 Searchmont Ski Association Inc. as at April 30, 2016, and its results of operations, changes in deficit and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Searchmont Ski Association Inc. has experienced operating losses and negative cash flows from operations in the current and prior years, and has a working capital and a net deficit. These conditions, along with other matters as set forth in Note 1 in the financial statements, indicate the existence of a material uncertainty that may cast doubt about Searchmont Ski Association Inc.'s ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted style. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

October 24, 2016

Sault Ste. Marie, Canada

# SEARCHMONT SKI ASSOCIATION INC.

## Statement of Financial Position

April 30, 2016, with comparative information for 2015

	2016	2015 (unaudited)
<b>Assets</b>		
Current assets:		
Cash	\$ 51,175	\$ 138,307
Trade receivables (note 3)	16,164	17,864
Inventories	4,008	31,932
Prepaid expenses	23,191	-
	<u>94,538</u>	<u>188,103</u>
Equipment (note 4)	59,778	-
	<u>\$ 154,316</u>	<u>\$ 188,103</u>
<b>Liabilities and Net Deficit</b>		
Current liabilities:		
Line of credit payable (note 5)	\$ 25,000	\$ 25,000
Accounts payable and accrued liabilities (note 6)	168,462	455,732
Deferred revenue (note 7)	121,925	166,350
Other current liabilities	-	113,972
	<u>315,387</u>	<u>761,054</u>
Long-term debt and accrued interest (note 8)	1,061,398	973,760
	<u>1,376,785</u>	<u>1,734,814</u>
Net deficit	(1,222,469)	(1,546,711)
Future operations (note 1)		
Commitments (note 10)		
	<u>\$ 154,316</u>	<u>\$ 188,103</u>

See accompanying notes to financial statements.

On behalf of the Board:

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# SEARCHMONT SKI ASSOCIATION INC.

## Statement of Operations and Changes in Net Deficit

Year ended April 30, 2016, with comparative information for 2015

	2016	2015 (unaudited)
Revenue:		
Ski lift	\$ 566,621	\$ 619,184
Supporting ski revenue	301,584	386,221
Food and beverage	253,732	393,529
Grant income	-	366,656
	<u>1,121,937</u>	<u>1,765,590</u>
Cost of goods sold	<u>197,144</u>	<u>321,753</u>
Gross profit	924,793	1,443,837
Expenses:		
Salaries and benefits	427,463	688,185
Utilities	169,504	175,042
Rent	108,388	36,011
Insurance	96,621	32,721
Interest on long-term debt	87,638	80,402
Management fees	39,439	99,216
Interest and bank charges	25,973	42,333
Repairs and maintenance	22,429	633,168
Amortization of equipment	16,842	79,797
Advertising	15,362	37,879
Entertainment and special events	14,717	14,973
Office and general	11,464	13,679
Telephone	8,298	7,869
Realty taxes	5,347	29,503
Professional fees	2,800	22,110
Vehicles	1,283	4,378
Travel	-	13,131
Recovery of prior year costs	(3,647)	(66,017)
	<u>1,049,921</u>	<u>1,944,380</u>
Loss before the undernoted items	(125,128)	(500,543)
Other income:		
Gain on sale of equipment	-	341,427
Forgiveness of secured and unsecured debt	449,370	1,208,648
	<u>449,370</u>	<u>1,550,075</u>
Excess of revenue over expenses	324,242	1,049,532
Net deficit, beginning of year	(1,546,711)	(2,596,243)
Net deficit, end of year	<u>\$ (1,222,469)</u>	<u>\$ (1,546,711)</u>

See accompanying notes to financial statements.

# SEARCHMONT SKI ASSOCIATION INC.

## Statement of Cash Flows

Year ended April 30, 2016, with comparative information for 2015

	2016	2015 (unaudited)
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 324,242	\$ 1,049,532
Items not involving cash:		
Amortization of equipment	16,842	79,797
Gain on sale of equipment	-	(341,427)
Forgiveness of debt	(449,370)	(1,208,648)
Decrease in trade receivables	1,700	23,149
Decrease in inventories	27,924	-
Increase in prepaid expenses	(23,191)	-
Decrease in line of credit payable	-	(70,000)
Increase (decrease) in accounts payable and accrued liabilities	75,100	(307,535)
Increase (decrease) in deferred revenue	(44,425)	85,562
Decrease in other current liabilities	(26,972)	-
	<u>(98,150)</u>	<u>(689,570)</u>
Financing:		
Increase in accrued interest on long-term debt	87,638	80,402
Payment on long-term debt	-	(750,000)
	<u>87,638</u>	<u>(669,598)</u>
Investing:		
Disposal of property and equipment	-	1,500,000
Purchase of equipment	(76,620)	-
	<u>(76,620)</u>	<u>1,500,000</u>
Increase (decrease) in cash	(87,132)	140,832
Cash, beginning of year	138,307	(2,525)
Cash, end of year	<u>\$ 51,175</u>	<u>\$ 138,307</u>

See accompanying notes to financial statements.

# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements

Year ended April 30, 2016

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## **Nature of operations:**

Searchmont Ski Association Inc. (the "Association") is incorporated without share capital under the laws of the province of Ontario. The association is a not-for-profit organization under the Income Tax Act and is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

## **1. Going concern:**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. However, there is significant doubt about the appropriateness of the use of the going concern assumption as the Association experienced operating losses and negative cash flows from operations in the current and prior years, and has a working capital deficiency and a net deficit as at April 30, 2016.

The Association has obtained a postponement of long-term debt payments and forgiveness of short-term debt, and is undertaking necessary capital improvements to enhance the skiing experience and sustainability of the facility, which in management's view, will enable the Association to achieve its business plans.

The ability of the Association to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Association to continue beyond April 30, 2017.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying amount of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

## **2. Significant accounting policies:**

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook. The Association's significant accounting policies are as follows:

### **(a) Revenue recognition:**

The Association follows the deferral method of accounting for contributions which include donations and government grants.

Deposits received and revenue related to any advance billings are deferred in current liabilities until the sale is recorded.

### **(b) Inventories:**

# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended April 30, 2016

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## 2. Significant accounting policies (continued):

(continued):

### (b) Inventories (continued):

Inventories are measured at the lower of cost and net realizable value by using first-in, first-out costing methodology. The Association uses the same cost formula for all the inventories having a similar nature and use.

### (c) Contributed services:

Volunteers contribute many hours annually to assist with events, training, club organization and other related activities that vary from year to year. Due to the difficulty in determining the value, contributed services are not recognized in the financial statements.

### (d) Equipment:

Equipment are stated at cost, less accumulated amortization. Amortization is provided using the declining-balance method and following annual rates:

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Asset	Rate
Machinery and equipment	20%

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The carrying amount of an item of equipment is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

### (e) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organization 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 year. Significant items subject to such estimates and assumptions include the carrying amounts of equipment and provisions for impairment of trade receivables. Actual results could differ from those estimates.

# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended April 30, 2016

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## 2. Significant accounting policies (continued):

(f) Financial instruments:

(i) Initial measurement:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

## 3. Trade receivables:

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	2016	2015
		(unaudited)
Trade receivables	\$ 18,164	\$ 22,123
Allowance for doubtful accounts	(2,000)	(4,259)
	<hr/> \$ 16,164	<hr/> \$ 17,864

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# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended April 30, 2016

## 4. Equipment:

				2016
	Cost	Accumulated amortization		Net book value
Machinery and equipment	\$ 76,620	\$ 16,842	\$	59,778

## 5. Operating credit facility:

The operating credit facility is authorized to a maximum of \$100,000 (2015 - \$100,000), is repayable on demand, has interest calculated at bank prime plus 0.9% and is secured by a general security agreement. At April 30, 2016, the Association had \$75,000 (2015 - \$75,000) available on this credit facility.

## 6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities as at April 30, 2016 are government remittances payable of \$35,301 (2015 - \$71,021) relating to federal and provincial sales taxes, payroll taxes, health taxes and workers' safety insurance.

## 7. Deferred revenue:

The balances in the deferred revenue of the Association consist of:

	2016	2015 (unaudited)
Gift certificates	\$ 10,914	\$ 9,239
Season passes	110,511	157,111
Deposits	500	-
	\$ 121,925	\$ 166,350

# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended April 30, 2016

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## 8. Long-term debt:

	2016	2015 (unaudited)
9% Promissory note, including unpaid interest of \$561,398 (2014 - \$473,760), secured by general security agreement with no fixed terms of repayment	\$ 1,061,398	\$ 973,760

The promissory note has been classified as long-term debt as it has been postponed to the lease agreement with the Sault Ste. Marie Economic Development Corporation.

## 9. Related party transactions:

A company owned by the president of the Association provided project management services to the Association in the amount of \$24,671 and funds to pay required monthly lease payments during the year in the amount of \$30,595. Amounts repayable at April 30, 2016 were forgiven and are included in forgiveness of secured and unsecured debt.

These transactions are in the normal course of operations or business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 10. Commitments:

The Association has leased the land, building and equipment from the Sault Ste. Marie Economic Development Corporation. Annual rent required under the lease agreement is \$108,300 which expires in April 2017.

## 11. Financial risks and concentration of risk:

The Association's financial instruments consist of cash, trade receivables, accounts payable and accrued liabilities, line of credit payable, and long-term debt. It is management's opinion that the Association is not exposed to significant interest rate, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximate their carrying values.

Concentration of risk:

(a) Industry:

The Association operates in the retail environment and is affected by general economic trends. A decline in economic conditions, consumer-spending levels or other adverse conditions could lead to reduced revenue and gross margin.

# SEARCHMONT SKI ASSOCIATION INC.

Notes to Financial Statements (continued)

Year ended April 30, 2016

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## 11. Financial risks and concentration of risk: (continued):

### (b) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

There have been no significant changes to the liquidity risk exposure from 2015.

## 12. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.