

**SEARCHMONT SKI ASSOCIATION INC.
FINANCIAL STATEMENTS**

YEAR ENDED APRIL 30, 2017

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INDEPENDENT AUDITORS' REPORT

August 29, 2017

The Executive and Members of Searchmont Ski Association Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of Searchmont Ski Association Inc., which comprise the statement of financial position as at April 30, 2017, the statement of operations and changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies.

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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Opinion

In my opinion, except for the effects, if any, described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Searchmont Ski Association Inc. as at April 30, 2017 and its financial performance 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 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, indicates the existence of a material uncertainty that may cast doubt about Searchmont Ski Association Inc.'s ability to continue as a going concern.

Chartered Professional Accountant
Professional Corporation
Authorized to practice public accounting by The Chartered Professional Accountants of Ontario
Sault Ste. Marie, Canada

SEARCHMONT SKI ASSOCIATION INC.
STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, **2017** **2016**

ASSETS

Current assets:

Cash	\$ 187,968	\$ 51,175
Trade receivable (note 3)	7,319	16,164
Inventories	4,806	4,008
Prepaid expenses	35,151	23,191
	235,244	94,538

Equipment (note 4) 45,170 59,778

\$ 280,414 \$ 154,316

LIABILITIES AND NET DEFICIT

Current liabilities:

Line of credit payable (note 5)	\$ -	\$ 25,000
Accounts payable and accrued liabilities (note 6)	108,451	168,462
Deferred revenue (note 7)	153,286	121,925
	261,737	315,387

Long-term debt and accrued interest (note 8) 1,156,924 1,061,398

1,418,661 1,376,785

Net deficit (1,138,247) (1,222,469)
 Future operations (note 1)
 Commitments (note 10)

\$ 280,414 \$ 154,316

APPROVED ON BEHALF OF THE BOARD:

_____ Director

_____ Director

SEARCHMONT SKI ASSOCIATION INC.
STATEMENT OF OPERATIONS AND NET ASSETS

YEAR ENDED APRIL 30,	2017	2016
REVENUE		
Ski lift	\$ 738,775	\$ 566,621
Supporting ski revenue	440,384	301,584
Food and beverage	365,234	253,732
	<u>1,544,393</u>	<u>1,121,937</u>
Cost of goods sold	241,972	197,144
	<u>1,302,421</u>	<u>924,793</u>
EXPENSES		
Salaries and benefits	524,607	427,463
Utilities	179,342	169,504
Rent	108,299	108,388
Interest on long-term debt	95,526	87,638
Repairs and maintenance	95,245	22,429
Insurance	84,593	96,621
Realty taxes	34,816	5,347
Advertising	38,550	15,362
Interest and bank charges	32,355	25,973
Amortization of equipment	14,608	16,842
Entertainment and special events	13,596	14,717
Office and general	9,962	11,464
Telephone	8,798	8,298
Vehicles	7,286	1,283
Professional fees	4,825	2,800
Travel	374	-
Management fees	-	39,439
Recovery of prior year costs	(34,583)	(3,647)
	<u>1,218,199</u>	<u>1,049,921</u>
Income (loss) before the undernote	84,222	(125,128)
Other income and expenses:		
Forgiveness of secured and unsecured debt	-	449,370
	<u>84,222</u>	<u>324,242</u>
Excess of revenue over expenses	84,222	324,242
Net deficit, beginning of year	(1,222,469)	(1,546,711)
Net deficit, end of year	<u>\$(1,138,247)</u>	<u>\$(1,222,469)</u>

The accompanying notes are an integral part of these financial statements

SEARCHMONT SKI ASSOCIATION INC.
STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,	2017	2016
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ 84,222	\$ 324,242
Items not involving cash:		
Amortization of equipment	14,608	16,842
Forgiveness of debt	-	(449,370)
Decrease in trade receivables	8,845	1,700
Decrease (increase) in inventories	(798)	27,924
Decrease (increase) in prepaid expenses	(11,960)	(23,191)
Decrease in line of credit payable	(25,000)	-
Increase (decrease) in accounts payable and accrued liabilities	(60,011)	75,100
Increase (decrease) in deferred revenue	31,361	(44,425)
Decrease in other current liabilities	-	(26,972)
	41,267	(98,150)
Financing:		
Increase in accrued interest on long-term debt	95,526	87,638
Investing:		
Purchase of equipment	-	(76,620)
Increase (decrease) in cash during the year	136,793	(87,132)
Cash, beginning of year	51,175	138,307
Cash, end of year	\$ 187,968	\$ 51,175

The accompanying notes are an integral part of these financial statements

SEARCHMONT SKI ASSOCIATION INC.
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2017

Nature of operations

The 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 a significant doubt about the appropriateness of the use of the going concern assumptions as the Association experienced operating losses and negative cash flows from operations in the prior years, and has a working capital deficiency and a net deficit as at April 30, 2017.

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 enhance the Association to achieve its business plans.

The ability of the Association to continue as a going concern and realize its assets and discharges 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 assumptions 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, 2018.

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 conditions 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.

SEARCHMONT SKI ASSOCIATION INC.
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2017

2. Significant accounting policies (continued):

(b) Inventories:

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:

Asset	Rate
Machinery and equipment	20%

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

YEAR ENDED APRIL 30, 2017

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 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.

Transactions 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 remeasurment 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:

	2017	2016
Trade receivables	\$ 12,934	\$ 10,914
Allowance for doubtful accounts	137,569	110,511
	\$ 150,802	\$ 121,925

4. Equipment:

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	\$ 76,620	\$ 31,450	\$ 45,170	\$ 59,778

SEARCHMONT SKI ASSOCIATION INC.
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2017

5. Operating credit facility:

The operating credit facility is authorized to a maximum of \$100,000 (2016 - \$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, 2017, the Association has \$100,000 (2016 - \$75,000) available on this credit facility.

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities as at April 30, 2017 are government remittance payable of \$15,364 (2016 - \$35,301) 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:

	2017	2016
Gift certificates	\$ 12,934	\$ 10,914
Season passes	137,569	110,511
Deposits	299	500
	\$ 150,802	\$ 121,925

8. Long-term debt:

	2017	2016
9% Promissory note, including unpaid interest of \$656,924 (2016 - \$561, 398), secured by general security agreement with no fixed terms of repayment	\$ 1,156,924	\$ 1,061,398

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:

In the prior year, 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 prior year in the amount of \$30,595. Amounts repayable at April 30, 2016 were forgiven and were 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.

SEARCHMONT SKI ASSOCIATION INC.
NOTES TO FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2017

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.

(a) Industry:

The Association operate 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.

(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 change to the liquidity risk exposure from 2016.

12. Comparative information:

Comparative figures were reported upon by another firm of chartered professional accountants and have been restated to comply with the presentation adopted for the current year.