

Financial Statements of

**PACIFIC INSTITUTE FOR
SPORT EXCELLENCE
SOCIETY**

Year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Members of Pacific Institute for Sport Excellence Society

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific Institute for Sport Excellence Society, which comprise the statement of financial position as at March 31, 2011, the statements of operations and changes in fund balances 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 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.

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, these financial statements present fairly, in all material respects, the financial position of Pacific Institute for Sport Excellence Society as at March 31, 2011 and its results of operations 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 1 in the financial statements which describes that the Society is developing a business plan to ensure the Society's long term sustainability. These conditions, along with other matters as set forth in note 1, indicate the existence of uncertainty that may cast doubt about the Society's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting principles applied by Pacific Institute for Sport Excellence Society in preparing and presenting the financial statements in accordance with Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants

September 27, 2011
Victoria, Canada

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Statement of Financial Position

March 31, 2011, with comparative information for 2010

	Operating Fund	Capital Fund	2011 Total	2010 Total
Assets				
Current assets:				
Cash	\$ 2,525	\$ -	\$ 2,525	\$ 2,325
Accounts receivable	44,031	-	44,031	74,349
Promissory note (note 3)	20,058	-	20,058	-
Inventories	20,152	-	20,152	4,502
Prepaid expenses	22,236	-	22,236	10,050
Interfund accounts	(258,500)	258,500	-	-
	(149,498)	258,500	109,002	91,226
Capital assets (note 4)	-	26,718,346	26,718,346	27,412,894
	\$ (149,498)	\$ 26,976,846	\$ 26,827,348	\$ 27,504,120

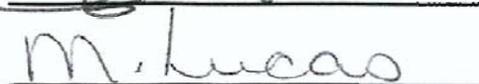
Liabilities and Fund Balances

Current liabilities:				
Bank indebtedness (note 5)	\$ 1,044	\$ -	\$ 1,044	\$ 75,590
Accounts payable and accrued liabilities	227,522	-	227,522	196,192
Deferred revenue	263,336	-	263,336	115,277
	491,902	-	491,902	387,059
Long-term accrued liability (note 7)	-	-	-	42,000
Deferred capital contributions (note 9)	-	26,776,817	26,776,817	27,332,980
Fund balances:				
Unrestricted	(641,400)	-	(641,400)	(411,333)
Internally restricted	-	73,500	73,500	73,500
Invested in capital assets	-	126,529	126,529	79,914
	(641,400)	200,029	(441,371)	(257,919)
Related organizations (note 10)				
	\$ (149,498)	\$ 26,976,846	\$ 26,827,348	\$ 27,504,120

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Statement of Operations Changes in Fund Balances

Year ended March 31, 2011, with comparative information for 2010

	Operating Fund	Capital Fund	2011 Total	2010 Total
Revenues:				
Membership and program revenue	\$ 604,546	\$ -	\$ 604,546	\$ 412,326
Lease revenue (note 10)	738,473	-	738,473	768,297
Amortization of deferred capital contributions	-	741,162	741,162	741,162
Rental income	133,222	-	133,222	156,252
Other income	46,476	-	46,476	20,565
Sponsorship revenue	57,120	-	57,120	-
	<u>1,579,837</u>	<u>741,162</u>	<u>2,320,999</u>	<u>2,098,602</u>
Expenses:				
Wages and benefits	903,059	-	903,059	776,686
Facility operation costs	355,794	-	355,794	332,862
General and administrative	274,417	-	274,417	222,498
Amortization	-	755,866	755,866	751,400
Program costs	177,074	-	177,074	107,334
Grounds maintenance	38,241	-	38,241	40,355
	<u>1,748,585</u>	<u>755,866</u>	<u>2,504,451</u>	<u>2,231,135</u>
Deficiency of revenues over expenses	(168,748)	(14,704)	(183,452)	(132,533)
Fund balances, beginning of year	(411,333)	153,414	(257,919)	(125,386)
Transfers for capital asset purchases	(61,319)	61,319	-	-
Fund balances, end of year	\$ (641,400)	\$ 200,029	\$ (441,371)	\$ (257,919)

See accompanying notes to financial statements.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Statement of Cash Flows

Year ended March 31, 2011, with comparative information for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Deficiency of revenues over expenses	\$ (183,452)	\$ (132,533)
Items not involving cash:		
Amortization of capital assets	755,866	751,400
Amortization of deferred capital contribution	(741,162)	(741,162)
	(168,748)	(122,295)
Change in non-cash operating working capital	119,813	56,421
	(48,935)	(65,874)
Financing:		
Increase (decrease) in bank indebtedness	(74,546)	75,590
Increase in deferred capital contributions	185,000	-
	110,454	75,590
Investments:		
Additions to capital assets	(61,319)	(65,786)
Increase (decrease) in cash	200	(56,070)
Cash, beginning of year	2,325	58,395
Cash, end of year	\$ 2,525	\$ 2,325

See accompanying notes to financial statements.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements

Year ended March 31, 2011

Pacific Institute for Sport Excellence Society (the "Society" or the "Institute") was incorporated under the Society Act, British Columbia on April 10, 2006. The Institute is a non-profit organization under the Income Tax Act. The Institute has three founding members: Camosun College (the "College"), Canadian Sport Centre Pacific ("CSCP"), and PacificSport Victoria ("PSV"). The Institute commenced active operations in August 2008.

1. **Going concern:**

These financial statements have been prepared on the going concern basis which assumes that the Society will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The Society commenced operations in fiscal 2009 and management is developing a business plan to ensure the Society's long term sustainability.

The application of the going concern basis is dependent on the support of stakeholders and donors and the Society's ability to sustain future profitable operations. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Society's liabilities and commitments as they become payable.

2. **Significant accounting policies:**

The financial statements of the Society have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Fund accounting:

Revenues and expenses related to facility rental, program delivery and administrative activities are reported in the Operating Fund.

The Capital Fund reports the assets, liabilities, revenues and expenses related to the property and equipment and internally restricted amounts held for future capital repairs, improvements or purchases.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(b) Revenue recognition:

The Society follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which related expenses are incurred. 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.

Contributions of capital assets that will be amortized are initially deferred and subsequently recognized as revenue on the same basis as the related costs are amortized. Contributions for capital assets that will not be amortized, such as land, are not recorded as deferred capital contributions or recognized as revenue, but are recorded as a direct increase in net assets in the period the asset is received.

Membership revenue is recognized on a proportionate basis over the term of the membership. Program revenue is recognized upon delivery of the program. Rental revenue is earned from other organizations who access the Society's facilities on a short term basis. Amounts received for future services are deferred until the service is provided.

Lease revenue includes rent earned from tenants under long term lease agreements, percentage rent and operating costs recoveries and other incidental income and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant's actual sales reach the sales threshold as set out in the tenant's lease.

Revenue from the sale of goods is recognized when the goods are delivered and the customer takes ownership and assumes risk of loss in accordance with customer contracts, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(c) Contributed materials and services:

Donated materials and services are recognized in the financial statements when a fair value can be reasonably established, the materials and services are used in the normal course of operations and would otherwise have been purchased.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(d) Financial instruments:

Cash is classified as held for trading and carried at fair value with changes in fair value recognized in income. Accounts receivable, promissory note, bank indebtedness and accounts payable and accrued liabilities are initially recorded at fair value and then carried at amortized cost thereafter.

The Society complies with CICA Handbook 3861, "Financial Instruments - Disclosure and Presentation", for the presentation and disclosure of financial instruments.

(e) Inventory:

Inventories are valued at the lower of average cost and net realizable value.

(f) Capital assets:

Capital assets are recorded at cost other than donated assets, which are recorded at their estimated fair market value upon receipt.

The following assets are amortized on a straight-line basis over their estimated useful life at the following annual rates:

Asset	Rate
Building	54 years
Furniture and equipment	10 years
Sports field	10 years
Computer	3 years
Signage	10 years

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Items requiring the use of significant estimates include the amortization period of capital assets and the collectibility of accounts receivable. Actual results could differ from those estimates.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(h) Future accounting framework changes:

The Society will be transitioning to the Accounting Standards for Not-for-Profit Organizations contained in Part III of the CICA Handbook-Accounting beginning April 1, 2012. While the financial statement presentation and the accounting treatment of most items will not change from current practice, there are certain transitional provisions that the Society will apply when preparing the first financial statements under the new accounting standards. The impact of these transitional provisions on the financial statements of the Society has not yet been fully determined.

3. Promissory note:

The Society holds a promissory note for \$20,000 which is repayable in full on September 15, 2011. The promissory note bears interest at prime plus one half percent per annum due monthly.

4. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Building	\$ 26,255,357	\$ 1,254,878	\$ 25,000,479	\$ 25,457,880
Furniture and equipment	1,687,172	426,134	1,261,038	1,400,786
Sports field	568,471	146,462	422,009	478,856
Computer	135,315	112,149	23,166	62,657
Signage	14,506	2,852	11,654	12,715
	\$ 28,660,821	\$ 1,942,475	\$ 26,718,346	\$ 27,412,894

Included in capital assets are building, furniture and equipment and sports field under long term lease arrangements (note 10(a)) of \$28,040,367 (2010 - \$28,040,367) with related accumulated amortization of \$1,794,135 (2010 - \$1,099,631).

5. Bank indebtedness:

The Society maintains a revolving line of credit with a financial institution which is due on demand, bears interest at 1.00% above the prime lending rate (2011 - 4%) and is secured by a general security agreement. The line of credit has a maximum balance of \$200,000.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

6. Capital management:

The Society receives its principal source of capital through revenues generated from its capital facilities. The Society defines capital to be fund balances and the Society's objective when managing capital is to fund its operations and ensure its long-term sustainability. The Society manages the capital structure based on economic conditions. Currently, the Society's strategy is to monitor expenses to preserve capital in accordance with budgeted revenues.

The Society is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter. The Society has complied with the external restrictions on the funding provided.

7. Long-term accrued liability:

The Society's contract with its former general manager obligates the Society to make payments of \$6,000 per month until October 31, 2011. A total of \$42,000 is included in accounts payable and accrued liabilities (2010 - \$72,000 was recognized under current liabilities and \$42,000 was recognized as a long term accrued liability).

8. Financial instruments:

The carrying value of cash, accounts receivable, promissory note, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

Credit risk exposure:

The maximum credit risk exposure for all of the Society's current financial assets is the carrying value of those assets. To reduce credit risk, cash is only held at major financial institutions.

The Society is charged a variable rate of interest on its bank indebtedness and accordingly is subject to interest rate risk.

It is management's opinion that the Society is not exposed to significant foreign exchange risk.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

9. Deferred capital contributions:

Deferred capital contributions include unamortized portions of capital contributions. The changes for the year are as follows:

	2011	2010
Deferred capital contributions, beginning of year	\$ 27,332,980	\$ 28,082,109
Ergometer project contributions	160,000	-
Regeneration room upgrades contributions	25,000	-
Less amortization recognized as revenue	(741,163)	(741,162)
Disposals	-	(7,967)
Deferred capital contributions, end of year	\$ 26,776,817	\$ 27,332,980

10. Related organizations:

(a) Camosun College (the "College"):

The Society's facilities, located at the Camosun College Interurban campus, were completed in September 2008 at which time the College signed a long term lease and license agreement with the Society under which the Society will operate the facility for a 25 year term with a 29 year extension option at an annual rent of \$1 per year. As it is anticipated that the Society will utilize the premises for the economic life of the building, the lease has been treated as a contribution of the facilities from Camosun College to the Society at its estimated fair market value of \$26,223,640. Furnishings within the facility, which include furniture and equipment and computer equipment, have been treated as a part of the lease and recorded at its estimated fair market value of \$1,251,886. The sports field has also been treated as part of the lease and recorded at its estimated fair market value of \$564,841.

At the same time, the Society signed a long term sub lease with the College under similar terms under which the College will operate its sport education programs, recreation and athletics programs and applied research activities at an annual cost of \$504,000. During fiscal 2011, the Society earned \$504,233 (2010 - \$504,000) in lease revenue from the College. In addition, the Society paid \$284,917 (2010 - \$283,229) in facility maintenance and security expenses to the College.

Under the current bylaws of the Society, Camosun College appoints two directors to the Society's board of directors. Under the current bylaws of the Society, Camosun College has two voting members of the Society.

PACIFIC INSTITUTE FOR SPORT EXCELLENCE SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2011

10. Related organizations (continued):

(b) Canadian Sport Centre Pacific Society ("CSCP"):

CSCP has signed a five year lease expiring August 14, 2013 with the Society to occupy approximately 10,000 square feet of premises at an annual cost of \$213,838. During fiscal 2011, the Society earned \$213,934 (2010 - \$213,838) in lease revenue from CSCP.

During the year, the Society received a capital contribution of \$50,000 from CSCP to be used for the Ergometer project (2010 - \$nil).

Under the current bylaws of the Society, CSCP appoints one director to the Society's board of directors. Under the current bylaws of the Society, CSCP has one voting member of the Society.

(c) PacificSport Victoria ("PSV"):

During fiscal 2011, PSV made capital contributions to the Society in the amounts of \$60,000 for the Ergometer project and \$25,000 for the regeneration room upgrades (2010 - \$nil). PSV also made operating contributions to the Society of \$20,000 for the nutrition recovery area project (2010 - \$nil).

Under the current bylaws of the Society, PSV appoints one director to the Society's board of directors. Under the current bylaws of the Society, PSV has one voting member of the Society.