

**PACIFIC SHORES OWNER  
ENTERPRISES LTD.  
FINANCIAL STATEMENTS  
(UNAUDITED)  
December 31, 2015**

*Partners*

Lorana LaPorte, CPA, CA, CFP\*

Grant McDonald, CPA, CA\*

\*Incorporated



**Church Pickard**

Chartered Professional Accountants

## REVIEW ENGAGEMENT REPORT

To the Members

We have reviewed the balance sheet of **Pacific Shores Owner Enterprises Ltd.** as at December 31, 2015 and the statements of operations, changes in net assets, and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures, and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

The investment in a private company is accounted for using the cost method. This is a departure from generally accepted accounting principles, as the organization has significant influence over the investee and therefore is required to account for the investment using the equity method. The effect of using the cost method on the financial statements cannot be determined at this time as the company is in receivership.

Except for the effect of the adjustment as described in the preceding paragraph, which would have been necessary to account for the investment in a private company using the equity method, based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations.

*Church Pickard*

**CHURCH PICKARD**

Chartered Professional Accountants

Nanaimo, B.C.  
May 11, 2016



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# PACIFIC SHORES OWNER ENTERPRISES LTD.

BALANCE SHEET as at December 31, 2015

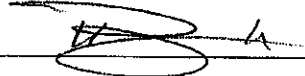
(unaudited)


	2015	2014
		(Restated)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,117,078	\$ 1,195,184
Other receivables	15,414	23,720
Inventory of supplies	37,337	47,782
Prepaid expenses	36,379	4,547
Due from related parties - Note 8	<u>7,726</u>	<u>93,710</u>
	1,213,934	1,364,943
<b>Investment in private company - Note 2</b>	1	1
<b>Equipment - Note 3</b>	<u>42,805</u>	<u>56,097</u>
	<u>\$ 1,256,740</u>	<u>\$ 1,421,041</u>

## Liabilities and Net Assets

<b>Current</b>		
Accounts payable and accrued liabilities - Note 5	\$ 79,491	\$ 189,837
Prepaid maintenance fees	1,118,741	1,089,179
Due to related party - Note 8	410	-
Current portion of capital lease - Note 6	<u>11,900</u>	<u>10,700</u>
	1,210,542	1,289,716
<b>Capital lease obligation - Note 6</b>	<u>20,366</u>	<u>32,248</u>
	1,230,908	1,321,964
<b>Net assets</b>		
Refurbishment reserve	25,832	-
Unrestricted surplus	<u>-</u>	<u>99,077</u>
	<u>\$ 1,256,740</u>	<u>\$ 1,421,041</u>

Approved:





# PACIFIC SHORES OWNER ENTERPRISES LTD.

## STATEMENT OF OPERATIONS

For the year ended **December 31, 2015**

(unaudited)

	Budget	2015	2014 (Restated)
<b>Revenue</b>			
Maintenance fees	\$ 3,157,847	\$ 3,021,851	\$ 2,335,484
Front desk income	36,000	125,873	83,033
Rentals and bonus time	235,000	129,301	41,464
Late fees	-	22,077	24,685
Interest income	-	2,676	3,573
Foreign exchange	-	19,292	6,551
Miscellaneous income	-	-	9,814
	<u>3,428,847</u>	<u>3,321,070</u>	<u>2,504,604</u>
<b>Expenses</b>			
Front desk	154,039	140,580	149,067
Housekeeping	620,730	542,429	454,423
Maintenance	259,965	207,952	222,302
Utilities	182,550	159,257	185,130
Transportation	5,488	2,366	9,837
	<u>1,222,772</u>	<u>1,052,584</u>	<u>1,020,759</u>
General and administrative			
Bad debts	363,531	420,619	158,874
Strata fees - Note 7	629,000	596,669	401,248
Professional fees	81,500	80,371	76,007
Property taxes	128,000	101,832	117,519
Office and administration	146,521	99,903	129,240
Management fees	154,269	152,698	152,791
Rent - Note 7	202,000	167,937	156,751
Interest and bank charges	41,760	51,924	30,131
Commercial centre - Note 7	252,927	263,273	158,079
Meetings	22,000	15,287	19,958
Supplies	12,524	6,374	7,234
Quality upgrades	-	34,028	-
Insurance	7,931	8,683	9,315
Amortization	-	10,011	10,572
Advertising and promotion	6,050	1,461	5,055
Interest on capital lease obligation	-	4,086	5,167
	<u>2,048,013</u>	<u>2,015,156</u>	<u>1,437,941</u>
<b>Total expenses</b>	<u>3,270,785</u>	<u>3,067,740</u>	<u>2,458,700</u>
<b>Excess of revenue over expenses before undernoted items</b>	<u>\$ 158,062</u>	253,330	45,904
<b>Other expenses</b>			
Contribution to Pacific Shores Resort Centre operating shortfall - Note 2		(324,211)	-
Loss on disposal of equipment		(2,364)	(1,150)
<b>Excess of (expenses over revenue) revenue over expenses</b>		(73,245)	44,754
<b>Net assets, beginning of the year</b>		<u>99,077</u>	<u>54,323</u>
<b>Net assets, end of the year</b>		<u>\$ 25,832</u>	<u>\$ 99,077</u>

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2015

(unaudited)

	<b>Refurbishment Reserve</b>	<b>Unrestricted Net Assets</b>	<b>Total 2015</b>	<b>Total 2014</b>
				(Restated)
<b>Net assets, beginning of the year</b>	\$ -	\$ 99,077	\$ 99,077	\$ 54,323
<b>Annual provision</b>	59,860	(59,860)	-	-
<b>Refurbishment expenditures</b>	(34,028)	34,028	-	-
<b>Excess of (expenses over revenue) revenue over expenses</b>	-	(73,245)	(73,245)	44,754
<b>Net assets, end of the year</b>	<u>\$ 25,832</u>	<u>\$ -</u>	<u>\$ 25,832</u>	<u>\$ 99,077</u>

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## STATEMENT OF CASH FLOWS

For the year ended **December 31, 2015**

(unaudited)

	2015	2014
		(Restated)
<b>Cash provided (used):</b>		
<b>Operating activities</b>		
Excess of (expenses over revenue)		
revenue over expenses	\$ (73,245)	\$ 44,754
Items not involving cash		
Amortization	11,535	14,601
Loss on disposal of equipment	<u>2,364</u>	<u>1,150</u>
	(59,346)	60,505
Changes in non-cash operating accounts		
Decrease in dues receivable	-	5,647
Decrease (increase) in other receivables	8,306	(6,492)
Decrease in inventory of supplies	10,445	-
(Increase) decrease in prepaid expenses	(31,832)	1,778
(Decrease) increase in accounts payable and accrued liabilities	(110,349)	30,444
Increase in prepaid maintenance fees	<u>29,562</u>	<u>576,448</u>
	<u>(153,214)</u>	<u>668,330</u>
<b>Investing activities</b>		
Purchase of equipment	(1,504)	(8,303)
Proceeds on the sale of equipment	900	5,695
Increase in long-term investments	<u>-</u>	<u>(1)</u>
	<u>(604)</u>	<u>(2,609)</u>
<b>Financing activities</b>		
Repayment of long-term debt	(10,682)	(9,602)
Advances from (repayments to) related parties	<u>86,394</u>	<u>(86,179)</u>
	<u>75,712</u>	<u>(95,781)</u>
<b>(Decrease) increase in cash</b>	(78,106)	569,940
<b>Cash, beginning of the year</b>	<u>1,195,184</u>	<u>625,244</u>
<b>Cash, end of the year</b>	<u>\$ 1,117,078</u>	<u>\$ 1,195,184</u>

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

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### **Business operations**

Pacific Shores Owner Enterprises Ltd is a company incorporated under the *Province of British Columbia Business Corporations Act* and operates as a not-for-profit organization. The company's principal activity is administering operational and maintenance requirements of Pacific Shores Resort Centre to the standard of a Gold Crown resort.

### **1. Significant accounting policies**

The financial statements of the organization have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

- Cash and cash equivalents

Cash is defined as cash on hand, cash on deposit, net of cheques issued and outstanding at the reporting date.

- Refurbishment reserve

The units are to be maintained to a Gold Crown standard with a planned refurbishment every six years and major work done during the 12th and 24th years. Additional funds are set aside in order to provide sufficient funds for future expenditures.

- Prepaid membership fees

Prepaid membership fees represent membership fees that have been paid in advance and are recognized when earned.

- Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the collectibility of accounts receivable, the useful life of equipment, the valuation of inventories, and the provision for contingencies. Actual results could differ from those estimates.

- Inventory of supplies

Inventory consists of linen and houseware supplies and is recorded at the lower of cost and net realizable value using the specific identification method.

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

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### 1. Significant accounting policies - cont.

#### - Revenue recognition

Maintenance fee revenue is recognized on a monthly basis when earned. Rental and bonus time, interest, and miscellaneous income are recognized when earned. Late fee revenue is recognized when payment is received. Foreign exchange gain (loss) is recognized when foreign currencies are translated into Canadian currency.

#### - Equipment

Equipment is recorded at cost and amortized.

Amortization is recorded on a declining-balance basis over the estimated useful life of the assets as follows:

Equipment under capital lease	20%
Vehicles	30%
Computer equipment	50%

In the year of acquisition, amortization is recorded at one-half of these rates.

#### - Investments

The organization's investments consist of 1 Class A share of a private company, and is recorded at cost - see qualification paragraph in the Review Report.

The cost method is a basis of accounting for investments whereby the investment is initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. When there is an indication of impairment and such an impairment is determined to have occurred, the carrying amount is reduced to the greater of the discounted future cash flows expected of the proceeds that could be realized from sale. Such impairments can be reversed if value subsequently improves.

### 2. Investment in private company

The organization's investment consists of 1 Class A share of a private company, Pacific Shores Resort Centre Ltd (PSRC). On February 2, 2016, PSRC was insolvent and a receiver was appointed pursuant to a general security agreement in favour of Fisgard Capital Corporation.

Due to PSRC being in receivership funds invested in PSRC were written down during the year in the amount of \$104,587. The company was also required to fund an operations deficit in PSRC in the amount of \$219,624.



# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

### 3. Equipment

	Cost	Accumulated Amortization	Net 2015	Net 2014
Equipment under capital lease	\$ 64,199	\$ 26,223	\$ 37,976	\$ 47,470
Vehicles	8,785	4,472	4,313	7,594
Computer equipment	<u>1,377</u>	<u>861</u>	<u>516</u>	<u>1,033</u>
	<u>\$ 74,361</u>	<u>\$ 31,556</u>	<u>\$ 42,805</u>	<u>\$ 56,097</u>

### 4. Dues receivable

	2015	2014
Due from members	\$ 2,044,455	\$ 1,678,370
Allowance for uncollectible membership dues	<u>(2,044,455)</u>	<u>(1,678,370)</u>
	<u>\$ -</u>	<u>\$ -</u>

### 5. Accounts payable and accrued liabilities

Included in the accounts payable and accrued liabilities as at December 31, 2015 is an amount due to the government for penalties and interest of \$3,585 (2014 - \$0) relating to late-filing penalties and arrears interest charged on the 2012 and 2013 T1044, Non-Profit Organization Information Return.

### 6. Capital lease obligation

The organization signed a five-year lease agreement in June 2013 for the rental of a complete office phone system.

	2015	2014
Roynat Inc. - financing agreement - payable at \$1,231 per month including interest at 10.71%; due June 1, 2018	\$ 32,266	\$ 42,948
Less: Current portion	<u>11,900</u>	<u>10,700</u>
	<u>\$ 20,366</u>	<u>\$ 32,248</u>

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

**6. Capital lease obligation - cont.**

Payments for each of the next three years are as follows:

	Principal	Interest	Total
2016	\$ 11,900	\$ 2,872	\$ 14,772
2017	13,200	1,572	14,772
2018	<u>7,166</u>	<u>220</u>	<u>7,386</u>
	<u>\$ 32,266</u>	<u>\$ 4,664</u>	<u>\$ 36,930</u>

The lease obligations is secured by equipment under capital lease with a carrying value of \$37,965 (2014 - \$48,163). Interest and bank charges includes interest of \$4,086 (2014 - \$5,167) related to the capital lease obligation.

**7. Related party transactions**

Strata fees of \$596,669 (2014 - \$401,248) were paid to The Owner's Strata Plan VIS 2036. The organization is related to this entity via economic interest. The Owners Strata Plan VIS 2036 performs significant functions on behalf of Pacific Shores Owner Enterprises Ltd., which are integral for the organization achieving its objectives.

Pacific Shores Owner Enterprises Ltd. is a 50% shareholder in Pacific Shores Resort Centre Ltd. Access fees of \$263,273 (2014 - \$158,079) were paid to Pacific Shores Resort Centre Ltd. for use of the commercial centre and \$167,937 (2014 - \$156,751) for the pool and gym, and \$324,211 to fund extra costs of the centre.

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

**8. Due from/to related parties**

The balances due from/to the related parties are unsecured, non-interest bearing, with no specific terms of repayment.

	2015	2014
Due from The Owners Strata Plan VIS 2036	\$ 7,726	\$ 7,599
Due from Pacific Shores Resort Centre Ltd.	104,177	86,111
Allowance for amounts due from Pacific Shores Resort Centre Ltd.	<u>(104,587)</u>	<u>-</u>
	<u>\$ 7,316</u>	<u>\$ 93,710</u>

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

### 9. Inventory of supplies

	2015	2014
Linen inventory	\$ 36,108	\$ 39,822
Housewares inventory	<u>1,229</u>	<u>7,960</u>
	<u>\$ 37,337</u>	<u>\$ 47,782</u>

### 10. Insurance

Liability and property insurance covers the property held at 1600 Stroulger Road, Parksville, B.C., for the period March 2015 to February 2016. This insurance expense is allocated among organizations that share common management via contracted services. Liability insurance is allocated by the insurance broker, while property insurance is allocated based on a statement of values and business interruption insurance by a combination of the number of units in each entity and occupancy levels.

The insurance expense for the period March 2015 to February 2016 is shared as follows:

Pacific Shores Owners Enterprises Ltd.	\$ 6,962
PS Fractional Residences Association	<u>2,984</u>
	<u>\$ 9,946</u>

### 11. Share capital

There are 3,172 common, voting shares, with no par value issued and these shares are held by the owners of the units.

# PACIFIC SHORES OWNER ENTERPRISES LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2015**

(unaudited)

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### 12. Adjustment of prior period errors

The organization's financial statements for the year ended December 31, 2014 contained errors which resulted in the following

Deferred maintenance fees	\$46,270 overstatement
Accounts payable and accrued liabilities	\$ 4,126 overstatement
Due from related parties	\$ 7,584 understatement
Bad debts	\$42,143 understatement
Utilities	\$ 7,584 overstatement

Due to this error, net assets was overstated by \$34,559 and expenses were understated. The 2014 comparative figures have been restated to correct for this error.

### 13. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

### 14. Financial risks and concentration of risk

#### - Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The organization is exposed to credit risk from its dues receivable. Credit risk associated with dues receivable is minimized by the company's large member base, which covers a broad range of membership from within Canada, the U.S., and other areas of the world. The organization maintains provisions for potential dues account collection losses and is of the opinion that the current allowance is reasonable for the risks which exist in the dues receivables - see Note 4.

#### - Currency 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 majority of the organization's assets, liabilities, revenue, and expenses are denominated in Canadian dollars. However, the organization holds two bank accounts for U.S. funds. Additionally, some transactions entered into are in U.S. dollars and are exposed to foreign exchange fluctuations.