

Consolidated Financial Statements of

SPORT BC

Year ended March 31, 2018



KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2400
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the Members of Sport BC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sport BC, which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of operations and changes in net assets 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Sport BC as at March 31, 2018 and its results of operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

May 25, 2018
Burnaby, Canada

SPORT BC

Consolidated Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,491,708	\$ 1,402,636
Restricted cash (note 3)	213,096	162,347
Accounts receivable (note 4 and note 6)	751,470	3,256,478
Prepaid expenses	25,347	26,466
Investments (note 5)	2,570,126	-
	<u>5,051,747</u>	<u>4,847,927</u>
Investments in related parties (note 6)	1	1
Capital assets (note 7)	16,523	13,341
	<u>\$ 5,068,271</u>	<u>\$ 4,861,269</u>

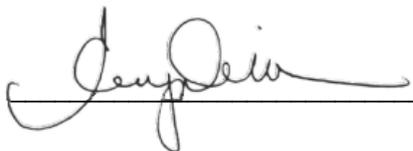
Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 3 and note 8)	\$ 937,900	\$ 1,006,683
Deferred contributions (note 9)	219,604	238,120
	<u>1,157,504</u>	<u>1,244,803</u>
Net assets	3,910,767	3,616,466
	<u>\$ 5,068,271</u>	<u>\$ 4,861,269</u>

Commitments (note 10)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

SPORT BC

Consolidated Statement of Operations and Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Insurance premium commissions	\$ 619,048	\$ 546,989
Investment income (note 5)	62,220	6,113
2016 Americas Masters Games	-	2,321,916
Fees for services and other	100,844	207,889
Provincial funding (note 9)	401,108	453,047
Membership fees	65,400	61,500
Corporate support, events and fundraising (note 9)	794,857	595,951
	<u>2,043,477</u>	<u>4,193,405</u>
Operating expenses:		
Insurance operations (note 4 and note 11)	518,156	455,602
2016 Americas Masters Games	-	2,321,916
Financial services	272,283	276,377
Leadership and operations	140,668	155,041
Marketing and communications	120,300	127,561
KidSport™ BC (note 9)	1,026,766	936,820
	<u>2,078,173</u>	<u>4,273,317</u>
Deficiency of revenue over expenses before the undernoted	(34,696)	(79,912)
Change in fair value of investments	75,150	-
Equity earnings in Allsport Insurance Marketing Ltd.	-	290,633
Gain on disposition of investment in Allsport Insurance Marketing Ltd. (note 6)	253,847	2,302,313
	<u>328,997</u>	<u>2,592,946</u>
Excess of revenue over expenses	294,301	2,513,034
Net assets, beginning of year	3,616,466	1,103,432
Net assets, end of year	<u>\$ 3,910,767</u>	<u>\$ 3,616,466</u>

See accompanying notes to consolidated financial statements.

SPORT BC

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Excess of revenue over expenses	\$ 294,301	\$ 2,513,034
Add (deduct) non-cash items:		
Amortization of capital assets	4,225	21,397
Equity earnings in Allsport Insurance Marketing Ltd.	-	(290,633)
Gain on disposition of investment in Allsport Insurance Marketing Ltd. (note 6)	(253,847)	(2,302,313)
Change in fair value of marketable securities	(75,150)	-
	(30,471)	(58,515)
Changes in non-cash operating items:		
Accounts receivable	2,505,008	(2,704,138)
Prepaid expenses	1,119	106,877
Accounts payable and accrued liabilities	(68,783)	277,265
Deferred contributions and other revenue	(18,516)	(243,942)
Restricted cash (note 3)	(50,749)	136,050
	2,337,608	(2,486,403)
Investments:		
Acquisition of investments	(2,494,976)	-
Acquisition of capital assets	(7,407)	(2,599)
Net proceeds received on disposition of Allsport Insurance Marketing Ltd. (note 6)	253,847	2,743,840
	(2,248,536)	2,741,241
Financing:		
Repayment of bank loan	-	(40,135)
	-	(40,135)
Increase in cash and cash equivalents	89,072	214,703
Cash and cash equivalents, beginning of year	1,402,636	1,187,933
Cash and cash equivalents, end of year	\$ 1,491,708	\$ 1,402,636

See accompanying notes to consolidated financial statements.

SPORT BC

Notes to Consolidated Financial Statements

Year ended March 31, 2018

1. Purpose of the Organization:

Sport BC is a not-for-profit organization incorporated under the Society Act (British Columbia). On November 28, 2016, the new Societies Act (British Columbia) became effective. Sport BC has until November 28, 2018 to transition to the new act. Under the provisions of the Income Tax Act, Sport BC is exempt from Canadian federal and provincial income taxes.

Sport BC, as a federation of sport organizations, provides leadership, direction, and support to foster the growth and development of amateur sport in British Columbia.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and incorporate the following significant accounting policies:

(a) Consolidation:

These consolidated financial statements include the accounts of Sport BC and its wholly owned insurance subsidiary, S.B.C. Insurance Agencies Ltd. ("SBC"), a taxable entity whose principal business activity is to operate an insurance brokerage. All intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on account and investments in short-term term deposits that have maturities within ninety days of acquisition.

(c) Capital assets:

Capital assets are stated at cost less accumulated amortization and impairment write-downs. Amortization expense is charged using the declining balance method as follows:

Equipment and telephone	20%
Computers and software	33%

Repairs and maintenance costs are charged to expense. Betterments that enhance the service potential or extend the useful life of an asset are capitalized. When a capital asset no longer contributes to Sport BC's ability to provide services, its carrying amount is written down to its residual value.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies (continued):

(d) Payroll retainer:

Sport BC performs payroll services for certain Provincial Sport Organizations (“PSO”) and collects a retainer from each PSO at the commencement of service. The balance is recorded as a liability and repaid when the PSO no longer requires payroll services to be performed.

(e) Revenue recognition:

Sport BC follows the deferral method of accounting for contributions. Restricted contributions are initially deferred and recognized as revenue in the year in which the related expenses are incurred or restrictions met. Unspent amounts are included in deferred contributions and other revenue. Contributions of, or funding for, the acquisition of capital assets are deferred and recognized as revenue on the same basis as the asset is amortized. 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.

Insurance commission revenue is recorded as insurance premium commissions at the time the coverage period of the policy commences.

(f) Contributed materials and services:

Sport BC recognizes as revenue contributions of certain services received at the estimated fair value of those services, provided the services would otherwise have been acquired and a fair value can be determined.

Contributed equipment is recorded at fair value when received.

(g) Use of estimates:

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to useful lives of capital assets for purposes of amortization, fair value of contributed materials and services and the valuation of accounts receivable. Actual results could differ from those estimates.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

2. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured 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.

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.

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Sport BC determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Sport BC expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(i) Allocation of expenses:

Management allocates human resource expenses based on the proportion of respective time Sport BC employees commit to the specific areas of operations.

(j) Income taxes:

S.B.C. Insurance Agencies Ltd. uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period (note 11), determined in accordance with the rules established by taxation authorities. Sport BC is exempt from Canadian federal and provincial income taxes.

3. Restricted cash:

Restricted cash is comprised of funds held in trust by S.B.C. Insurance Agencies Ltd. for premiums collected on behalf of clients. This amount is also included in accounts payable.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

4. Accounts receivable:

As at March 31, 2018, the balance of accounts receivable is net of an allowance for doubtful accounts of \$20,007 (2017 - \$5,331).

Included in insurance operations expenses is bad debt expense of \$14,676 (2017 - nil).

5. Investments:

As at March 31, 2018, Sport BC held \$2,570,126 in mutual funds measured at fair value.

Investment income earned during the year is comprised of the following:

	2018	2017
Interest	\$ 19,098	\$ 6,113
Dividends	43,122	-
	<u>\$ 62,220</u>	<u>\$ 6,113</u>

6. Investments in related parties:

Sport BC owns 100% of the shares of SBC Distributions Ltd. and accounts for this investment using the equity method. The company is inactive and, accordingly, Sport BC's equity investment in the shares have been reduced to a nominal value of \$1.

On March 31, 2017, Sport BC sold its 50% equity interest in Allsport Insurance Marketing Ltd. for net proceeds of \$2,743,840 resulting in a gain of \$2,302,313. Sale proceeds, which were net of \$32,316 for legal and professional fees, were received after March 31, 2017 and, accordingly, were included in accounts receivable as at March 31, 2017.

In addition to the proceeds of the sale recorded in the financial statements for the year ended March 31, 2017, the share purchase agreement provided for Sport BC to receive additional consideration based on certain performance criteria. As at March 31, 2017, it was not determinable whether the performance criteria would be met and accordingly the additional consideration was not recorded. In 2018, the purchaser was required to pay Sport BC contingent consideration of \$253,847. The additional consideration was recorded in the results of operations for the year ended March 31, 2018 and is included in accounts receivable.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

7. Capital assets:

			2018	2017
	Cost	Accumulated depreciation	Net book value	Net book value
Equipment and telephone	\$ 6,184	\$ 5,599	\$ 585	\$ 732
Computers and software	61,274	45,336	15,938	12,609
	\$ 67,458	\$ 50,935	\$ 16,523	\$ 13,341

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are PSO payroll services retainers of \$319,549 (2017 - \$335,049) and government remittances payable of \$1,952 (2017 - nil).

9. Deferred contributions, fees and provincial funding:

The changes in deferred contributions are as follows:

	2018	2017
Deferred contributions, beginning of year	\$ 238,120	\$ 482,062
Amounts received, Province of BC:		
KidSport™ BC Provincial grants	400,000	400,000
Province of BC – Gaming	-	33,000
2016 Americas Masters Games	-	400,000
Amounts received, other:		
KidSport™ BC – Other restricted contributions	610,386	545,252
2016 Americas Masters Games – athlete registration fees	-	539,475
Amounts recognized as revenue:		
KidSport™ BC – Province of BC grants	(401,108)	(453,047)
KidSport™ BC – Other restricted contributions	(627,794)	(553,452)
2016 Americas Masters Games – Province of BC grants	-	(400,000)
2016 Americas Masters Games – athlete registration fees	-	(755,170)
Deferred contributions, end of year	\$ 219,604	\$ 238,120

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

9. Deferred contributions, fees and provincial funding (continued):

The balance of deferred contributions is comprised of the following:

	2018	2017
KidSport™ BC – Province of BC grants	\$ 209,012	\$ 210,120
Kidsport™ BC – Other restricted contributions	10,592	28,000
	<u>\$ 219,604</u>	<u>\$ 238,120</u>

Kidsport™ BC is a licensed provincial chapter of Kidsport™ Canada and operates as a division of Sport BC. Kidsport™ BC receives funds through provincial grants, corporate sponsorships, and annual fundraising events, and provides grants for children ages 18 and under to participate in a sport season of their choice. Funds received in the year that are not granted out to children or used to operate Kidsport™ programs are deferred to future periods. Provincial grants and corporate sponsorships recognized as revenue in the year are included under Provincial funding and Corporate support, events and fundraising respectively in the consolidated statement of operations.

10. Commitments:

Operating leases:

Sport BC has an agreement with BC Pavilion Corporation to lease office space at 999 Canada Place in Vancouver, BC. The lease expires October 31, 2018.

Sport BC also has operating lease agreements for printers requiring a quarterly minimum charge plus charges for additional impressions and/or services.

The annual future minimum lease payments under operating leases are as follows:

2019	\$ 31,789
2020	2,620
2021	655
	<u>\$ 35,064</u>

11. Income tax expense:

Included in insurance operations is \$3,507 (2017 - \$2,287) of income tax expense related to S.B.C Insurance Agencies Ltd.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

12. Funds held with the Vancouver Foundation:

Sport BC has an investment in perpetuity with the Vancouver Foundation. The initial cost of the investment was \$10,000 with a market value at March 31, 2018 of \$25,422 (2017 - \$25,021). Sport BC is entitled only to the investment income on these funds, which was \$906 during the year (2017 - \$868). Accordingly, the endowment fund capital is not reflected in Sport BC's consolidated statement of financial position. The investment income is recorded as revenue when it is received.

13. Bank loan:

Sport BC has a banking agreement with TD Canada Trust (the "Bank") for credit facilities consisting of a revolving term facility with a maximum of \$300,000 and an operating loan with a maximum of \$250,000, each bearing interest at the Bank's prime rate.

As at March 31, 2018, no amounts (2017 - nil) have been drawn against these credit facilities.

Both credit facilities are collateralized by a general security agreement representing a first charge on all of Sport BC's present and after acquired personal property.

14. Employee remuneration:

For the fiscal year ended March 31, 2018, Sport BC paid total remuneration of \$428,157 (2017 - \$349,952) to four (2017 - three) employees, each of whom received total annual remuneration of \$75,000 or greater. There was no remuneration paid to directors of Sport BC during the fiscal year.

15. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. Sport BC is exposed to credit risk with respect to the accounts receivable. Sport BC assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. Assessment for uncollectible accounts are performed by management and provided for. There has been no change to the risk exposure from 2017.

(b) Liquidity risk:

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with financial liabilities. Sport BC is exposed to this risk mainly in respect of its bank loan and accounts payable and accrued liabilities. Sport BC manages liquidity risk by maintaining adequate cash and highly liquid investments. There has been no change to the risk exposure from 2017.

SPORT BC

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

15. Financial risks and concentration of credit risk (continued):

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks include equity price risk, currency risk and interest rate risk. Sport BC's exposure to equity price risk is primarily attributable to fluctuations in quoted market prices of listed investments.

The risks associated with investments are managed through Sport BC's established investment policy.

16. Comparative information:

Certain items have been reclassified in the prior year's comparatives to conform with the current year presentation.