

September 30, 2011

Saturna Recreation Centre Society
P.O. Box 171
Saturna Island B.C.
V0N 2Y0

Dear: Sirs/Mesdames

As part of the examination and audit for the financial statements of Saturna Recreation Centre Society for the year ending June 30, 2011, Canadian generally accepted auditing standards require that we communicate the following information with you in relation to your audit.

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. This includes the design and maintenance of accounting records, recording transactions, selecting and applying accounting policies, safeguarding of assets and preventing and detecting fraud and error.

Our Responsibility as Auditors

As stated in the engagement letter dated January 31, 2011, our responsibility as auditors of your organization is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the organization in accordance with Canadian generally accepted accounting principles.

An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

Our audit includes:

- Assessing the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole; and
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

As part of our audit, we will obtain a sufficient understanding of the Association and the internal control structure of Saturna Recreation Centre Society to plan the audit. This will include management's assessment of:

- The risk that the financial statements may be materially misstated as a result of fraud and error; and,
- The internal controls put in place by management to address such risks.

Audit Approach

Outlined below are certain aspects of our audit approach which are intended to help you in discharging your oversight responsibilities. Our general approach to the audit of Saturna Recreation Centre Society is to assess the risks of material misstatement in the financial statements and then respond by designing audit procedures.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, are limited to those considered necessary in the circumstances and would not necessarily disclose all illegal acts, fraud, intentional misstatements or errors should any exist. We will conduct the audit under Canadian generally accepted auditing standards (GAAS), which include procedures to consider (based on the control environment, governance structure and circumstances encountered during the audit), the potential likelihood of fraud and illegal acts occurring.

These procedures are not designed to test for fraudulent or illegal acts, nor would they necessarily detect such acts or recognize them as such, even if the effect of their consequences on the financial statements is material. However, should we become aware that an illegal or possible illegal act or an act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate this information directly to the audit committee.

It is management's responsibility to detect and prevent illegal actions. If such acts are discovered or audit committee members become aware of circumstances under which the Company may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

Related Party Transactions

During our audit, we conduct various tests and procedures to identify transactions considered to involve related parties. Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management, directors and their immediate family members and companies with which these individuals have an economic interest.

We will ensure that all related party transactions that were identified during the audit have been represented by management to have been disclosed in the notes to financial statements, recorded in accordance with Canadian generally accepted accounting principles (GAAP), and have been reviewed with you. All gains and losses occurring as a result of transactions with related parties have been recorded in accordance with the recommendations of Section 3840 of the Canadian Institute of Chartered Accountants (CICA) Handbook. Management has advised that no other related party transactions have occurred that have not been disclosed to us. The audit committee is required to advise us if they are aware of or suspect any other related party transactions have occurred which have not been disclosed in the financial statements.

Risk-based

Our risk-based approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit work on higher risk areas that have a higher risk of being materially misstated.

Materiality

Materiality in an audit is used to:

- Guide planning decisions on the nature and extent of our audit procedures;
- Assess the sufficiency of the audit evidence gathered; and
- Evaluate any misstatements found during our audit.

Materiality is defined as:

Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgment in the particular circumstances.

Audit Procedures

In responding to our risk assessment, we will use a combination of tests of controls, tests of details and substantive analytical procedures. The objective of the tests of controls is to evaluate whether certain controls operated effectively. The objective of the tests of details is to detect material misstatements in the account balances and transaction streams. Substantive analytical procedures are used to identify differences between recorded amounts and predictable expectations in larger volumes of transactions over time.

Areas of Management Interest

The following is a list of items which came to our attention during the audit and are presented for your information:

1. Bank reconciliations should be prepared on a monthly basis for all accounts, and these should be reviewed and signed off by an independent board member. If the bank account is being balanced to the bank statement each month, printing out the general ledger bank account for the month and attaching it to the related bank statement would be appropriate.
2. Cheque #350 was written to Michael Vautour November 3, 2011 for \$116.02. This cheque was later voided and the amount is listed as an Accounts Payable for year end. When verifying the accounts payable the client was not sure if this amount was still owed or not. There was a comment that Mr. Vautour may have been paid out of cash.
3. Throughout the year cheques were written for a variety of items and the source documents (invoices) have gone missing. The treasurer commented people will come to get a receipt for some purpose or other and not return it. Perhaps a photocopy could be made of any item before it is permitted to leave. The individual needing the invoice could sign the photocopy promising to return the item.
4. There was a comment in the minutes dated September 19, 2010 that the financial information had been compromised. It stated "Bernie also reported that it appears as if someone has been messing with the new computer and some of the financial information has been lost". We understand you have taken steps to remedy this situation and that no undisclosed losses resulted from this problem.
5. There is no password on the bookkeeping records. We suggest you make use of this control point.
6. In year end 2010 only one cheque had a single signature on it. This year there are seven such cheques. The single signature is always the same person. Six of the cheques are to Melanie Gaines and one is for Wayne Dodd. We understand as a small society it can be difficult to obtain signatures, but the goal is to maintain strong controls over the cash.
7. The bookkeeper should not have signing authority on the bank accounts.

8. There is no indication that the invoices are being approved for payment by someone other than the bookkeeper.
9. Donation receipt #647 dated April 18, 2011 for \$400 received from Melanie Gaines was not signed. Donation receipt #649 dated July 14, 2011 for \$40 received from Paul Mc Weeny is also not signed.
10. The accounts receivable have been a challenge for the bookkeeper in the past year. This resulted in an overstatement of the income figures for 2011. Mr. Ziegler has requested guidance on this item and would appreciate a step by step instruction sheet on how to process accounts receivable accordingly.
11. Mr. Ziegler has been very diligent with implementing the prior years suggestions from the management letters. We appreciate his continued efforts.

This communication is prepared solely for your information. We accept no responsibility to a third party who uses this communication.

We would be pleased to discuss any of the above items with you at your convenience.

Yours truly,
COWLAND PATERSON & CO.

A handwritten signature in cursive script, appearing to read "Chris Cowland".

Chris Cowland, CA

/ceg

SATURNA RECREATION CENTRE SOCIETY

(Incorporated Under The Society Act of British Columbia)

FINANCIAL STATEMENTS

Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Members of
Saturna Recreation Centre Society

We have audited the accompanying financial statements of Saturna Recreation Centre Society, which comprise the statement of financial position as at June 30, 2011, the statements of operations and changes in net assets and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes and information.

Management's Responsibilities 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.

Auditor's 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 of 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 these 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.

In common with many charitable organizations, the Society derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Society and we were not able to determine whether any adjustments might be necessary to donation revenue, assets and net assets.

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, except for the adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donations referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Society as at June 30, 2011 and the results of its operations and statement of cash flow for the year then ended in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year, as required by the British Columbia Society Act.

Conland Paterson + Co.

Sidney, British Columbia
September 30, 2011

PROFESSIONAL ACCOUNTANTS

SATURNA RECREATION CENTRE SOCIETY
Statement of Financial Position
June 30, 2011

	Operating Fund	Capital Fund	Gaming Fund	2011 Total	2010 Total
ASSETS					
Current					
Cash and cash equivalents	\$ 158,276	\$ -	\$ 2	\$ 158,278	\$ 174,860
GST receivable	2,022	-	-	2,022	430
Accounts receivable	2,691	-	-	2,691	-
Prepaid expenses	3,848	-	-	3,848	3,735
Total current	<u>166,837</u>	<u>-</u>	<u>2</u>	<u>166,839</u>	<u>179,025</u>
Capital (Note 4 and 5)	<u>-</u>	<u>1,933,617</u>	<u>-</u>	<u>1,933,617</u>	<u>2,004,973</u>
	<u>\$ 166,837</u>	<u>\$ 1,933,617</u>	<u>\$ 2</u>	<u>\$ 2,100,456</u>	<u>\$ 2,183,998</u>
LIABILITIES					
Current					
Accounts payable	\$ 6,000	\$ -	\$ -	\$ 6,000	\$ 6,041
Deferred revenue (Note 6)	<u>-</u>	<u>390,050</u>	<u>-</u>	<u>390,050</u>	<u>395,338</u>
Net assets					
Non-Restricted funds	47,738	-	-	47,738	18,664
Restricted funds (Note 2b)	113,099	1,543,567	2	1,656,668	1,763,955
	<u>160,837</u>	<u>1,543,567</u>	<u>2</u>	<u>1,704,406</u>	<u>1,782,619</u>
	<u>\$ 166,837</u>	<u>\$ 1,933,617</u>	<u>\$ 2</u>	<u>\$ 2,100,456</u>	<u>\$ 2,183,998</u>

Approved by the Board:

_____ Director

_____ Treasurer

SATURNA RECREATION CENTRE SOCIETY
Statement of Operations and Changes in Net Assets
Year Ended June 30, 2011

	Operating Fund	Capital Fund	Gaming Fund	2011 Total	2010 Total
Revenue					
Donations	\$ 10,984	\$ -	\$ -	\$ 10,984	\$ 6,235
Rental revenue (Note 6)	30,642	-	-	30,642	19,673
Membership fees	5,900	-	-	5,900	5,294
Medical clinic income	5,000	-	-	5,000	5,000
Fund raising	20,113	-	-	20,113	10,160
Interest	1,274	-	8	1,282	152
Other Income	1,555	-	-	1,555	2,904
Total Revenue	<u>75,468</u>	<u>-</u>	<u>8</u>	<u>75,476</u>	<u>49,418</u>
Expenses					
Audit and legal fees	6,364	-	-	6,364	6,637
Bank charges	14	-	-	14	104
Contract labour and WCB	6,140	-	-	6,140	6,029
Acoustic system	-	-	15,930	15,930	-
Fundraising costs	12,307	-	-	12,307	5,977
Insurance	9,014	-	-	9,014	9,170
Office and miscellaneous	2,763	-	-	2,763	463
Repairs and maintenance	11,130	-	-	11,130	11,149
Telephone	1,078	-	-	1,078	1,033
Utilities	11,091	-	-	11,091	7,818
Amortization of capital assets	-	71,356	-	71,356	74,844
Sports equipment	1,919	-	4,583	6,502	-
	<u>61,820</u>	<u>71,356</u>	<u>20,513</u>	<u>153,689</u>	<u>123,224</u>
Excess (deficiency) of revenue over expenses	13,648	(71,356)	(20,505)	(78,213)	(73,806)
Net assets, beginning of year	150,978	1,609,634	22,007	1,782,619	1,856,425
Transfer between funds	<u>(3,789)</u>	<u>5,289</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 160,837</u>	<u>\$ 1,543,567</u>	<u>\$ 2</u>	<u>\$ 1,704,406</u>	<u>\$ 1,782,619</u>

SATURNA RECREATION CENTRE SOCIETY

Statement of Cash Flow

Year Ended June 30, 2011

	2011	2010
Cash Provided By (Used In):		
Operating Activities		
Excess (deficiency) of revenue over expenses for the year	\$ 13,648	\$ 1,014
Items not involving cash		
Amortization	<u>71,356</u>	<u>74,844</u>
	85,004	75,858
Cash Committed To working capital	<u>(101,586)</u>	<u>(72,029)</u>
	<u>(16,582)</u>	<u>3,829</u>
Increase (Decrease) In Cash	(16,582)	3,829
Cash and cash equivalents, at beginning of year	<u>174,860</u>	<u>171,031</u>
Cash and cash equivalents, at end of year	\$ <u>158,278</u>	\$ <u>174,860</u>
Cash and Cash Equivalents Represented By:		
Non-Restricted funds	\$ 45,179	\$ 64,860
Restricted funds	<u>113,099</u>	<u>110,000</u>
	\$ <u>158,278</u>	\$ <u>174,860</u>
Cash Generated By (Committed To) Working Capital		
Accounts and HST receivable	\$ (4,282)	\$ 7,484
Prepaid expenses	(113)	135
Accounts payable and accrued liabilities	(41)	462
Deferred revenue	(5,289)	(5,289)
Other	<u>(91,861)</u>	<u>(74,821)</u>
	\$ <u>(101,586)</u>	\$ <u>(72,029)</u>

SATURNA RECREATION CENTRE SOCIETY

Notes to Financial Statements

Year Ended June 30, 2011

1. PURPOSE OF THE SOCIETY

Saturna Recreation Centre Society (The "Society") is incorporated under the Society Act of British Columbia as a not-for-profit organization. As a non-profit organization, the Society is exempt from income tax under paragraph 149(1)(l) of the Income Tax Act.

The purposes of the Society are:

- a) To identify the recreational, cultural and health needs and interests of the community;
- b) To organize, administer and coordinate appropriate recreation opportunities for all ages in the community on a year-round basis;
- c) To assist already established recreation groups and programs; and
- d) To obtain and manage the necessary finances, personnel and equipment to operate community recreation programs and facilities.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Capital Assets (See also Note 5)

Amortization is provided for on a declining balance basis over the estimated life of the asset as indicated in Note 4. In the year of acquisition or completion, one half of the regular amortization is charged.

b) Fund Accounting

The Society follows the restricted fund method of accounting for contributions.

The Operating Fund reports revenue, expenses and monetary resources related to the Society's program delivery and administrative activities. Within the Operating Fund, \$113,099 has been internally restricted by the Board of Directors, for the purpose of setting up an investment with the Vancouver Foundation. An amount of \$25,000 has previously been invested with the Vancouver Foundation.

The Capital Fund reports all land and building costs incurred to date for the purpose of building a new recreational facility for the community of Saturna Island. Within the Capital Fund, donations were being accepted for the purpose of building a structure to house the ambulance. The Society transferred \$80,503 of these restricted donations in June 2009 to Saturna Island Fire Protection Society to build an ambulance facility for Saturna Island Rescue.

The Gaming Fund reports the revenue, expenses and monetary resources whose use is restricted to those permitted by the British Columbia Gaming Commission.

SATURNA RECREATION CENTRE SOCIETY

Notes to Financial Statements

Year Ended June 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Revenue Recognition

Unrestricted contributions are recorded as revenue of the Operating Fund in the year received or receivable if the amount can be estimated and collection is reasonably assured.

Restricted contributions are recorded as revenue in the year receivable.

d) Donated Materials, Services and Property

Donated materials, services and property are recognized only when their fair value can be reasonably estimated and the materials and services would be paid for by the Society if not donated.

During the year ended June 30, 2011 the value of donated materials, services and property recorded in the accounts was \$ NIL (2010 - \$NIL).

e) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. FINANCIAL INSTRUMENTS

Financial Risk

The Society's financial instruments consist of cash, receivables and accounts payable, the fair value of which approximates their carrying value.

4. CAPITAL ASSETS

	Rate	Cost	Accumulated Amortization	2011 Net	2010 Net
Land		\$ 271,661	\$ -	\$ 271,661	\$ 271,661
Buildings	4%	2,102,158	451,037	1,651,121	1,719,918
Outbuilding	10%	2,965	1,881	1,084	1,205
Equipment	20%	33,066	23,315	9,751	12,189
		<u>\$ 2,409,850</u>	<u>\$ 476,233</u>	<u>\$ 1,933,617</u>	<u>\$ 2,004,973</u>

SATURNA RECREATION CENTRE SOCIETY

Notes to Financial Statements

Year Ended June 30, 2011

4. CAPITAL ASSETS (CONTINUED)

The building costs are allocated into three areas:

a) Recreation Centre

The recreation centre consists of a banquet hall, gymnasium, performance stage, bar/lounge and a medical clinic. The Society retains ownership of the land and building. Funding for the construction of the recreation centre was from donations and government grants, primarily a Canada/British Columbia Infrastructure Program (CBCIP) grant. (See Note 5).

b) Medical Clinic

The medical clinic portion of the building was funded by donations, and is leased to another group.

c) Parks Canada Office

An office building for Parks Canada is constructed on the same property as the recreation centre. The Society retains ownership of this building and the land. The lease amount consists of the approximate cost of the associated land and the actual costs associated with constructing the building. (See Note 6).

The costs have been allocated as follows:

	Land	Building
Recreation Centre	\$ 161,661	\$ 1,813,223
Medical Clinic	-	99,750
Parks Canada Office	<u>110,000</u>	<u>189,185</u>
	<u>\$ 271,661</u>	<u>\$ 2,102,158</u>