

SUMMERSIDE RESIDENTS ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2017



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Independent Auditor's Report

To the Board of Directors of Summerside Residents Association

We have audited the accompanying financial statements of the Summerside Residents Association, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net deficiency and cash flows for the year then ended, and 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 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

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 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.

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 financial statements present fairly, in all material respects, the financial position of the Summerside Residents Association as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP


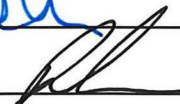
Chartered Professional Accountants

Calgary, Alberta
April 19, 2018

SUMMERSIDE RESIDENTS ASSOCIATION
Statement of Financial Position
As at December 31

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 820,359	\$ 350,300
Accounts receivable (Note 3)	39,066	30,461
Prepaid expenses	10,116	10,447
	<u>869,541</u>	<u>391,208</u>
CAPITAL ASSETS (Note 4)	<u>2,683,735</u>	<u>2,789,965</u>
	<u>\$ 3,553,276</u>	<u>\$ 3,181,173</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 50,600	\$ 55,619
Goods and services tax payable	23,794	20,857
Demand loan payable (Note 5)	2,983,066	3,065,474
Deferred revenue	542,118	460,576
	<u>3,599,578</u>	<u>3,602,526</u>
DEFERRED CAPITAL CONTRIBUTION (Note 7)	<u>300,000</u>	<u>400,000</u>
	3,899,578	4,002,526
NET DEFICIENCY (Note 8)		
Net assets invested in capital assets	2,383,735	2,389,965
Unrestricted net deficiency	(2,730,037)	(3,211,318)
	<u>(346,302)</u>	<u>(821,353)</u>
	<u>\$ 3,553,276</u>	<u>\$ 3,181,173</u>

Approved on behalf of the Association:


 _____ Director

 _____ Director

The accompanying notes are an integral part of these financial statements.

SUMMERSIDE RESIDENTS ASSOCIATION
Statement of Operations
For the year ended December 31

	<u>2017</u>	<u>2016</u>
REVENUE		
Membership fees	\$ 1,454,791	\$ 1,315,025
Program income	140,873	113,888
Amortization of deferred capital contributions	100,000	100,000
Beach club rental	65,992	62,036
Interest and other (Note 3)	105,581	98,987
	<u>1,867,237</u>	<u>1,689,936</u>
EXPENSES		
Salaries and benefits	661,287	614,856
Amortization	162,277	157,473
Administration	129,052	120,309
Programs	114,367	123,549
Loan interest	101,192	98,287
Beach club maintenance	90,059	72,366
Professional fees (Note 3)	42,837	45,521
Utilities	39,498	26,070
Advertising and promotion	31,879	36,857
Security	20,716	18,591
Repairs and maintenance	14,881	12,170
Insurance	11,620	12,562
Gain on disposal of assets	(6,344)	-
Property tax (recovery)	(21,135)	144,510
	<u>1,392,186</u>	<u>1,483,121</u>
EXCESS OF REVENUE OVER EXPENSES	<u><u>\$ 475,051</u></u>	<u><u>\$ 206,815</u></u>

SUMMERSIDE RESIDENTS ASSOCIATION
Statement of Changes in Net Deficiency
For the year ended December 31

	Invested in capital assets	Unrestricted	2017	2016
Balance, beginning of year	\$ 2,389,965	\$ (3,211,318)	\$ (821,353)	\$ (1,028,168)
Acquisition of capital assets	58,703	(58,703)	-	-
Excess of revenue over expenses	-	475,051	475,051	206,815
Amortization of capital assets	(162,277)	162,277	-	-
Disposal of capital assets	(2,656)	2,656	-	-
Amortization of deferred capital contributions	100,000	(100,000)	-	-
Balance, end of year	\$ 2,383,735	\$ (2,730,037)	\$ (346,302)	\$ (821,353)

SUMMERSIDE RESIDENTS ASSOCIATION
Statement of Cash Flows
For the year ended December 31

	<u>2017</u>	<u>2016</u>
NET CASH INFLOW (OUTFLOW) RELATED TO		
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 475,051	\$ 206,815
Items not affecting cash and cash equivalents		
Amortization of capital assets	162,277	157,473
Amortization of deferred capital contributions	(100,000)	(100,000)
Gain on disposal of capital assets	(6,344)	
	<u>530,984</u>	<u>264,288</u>
Changes in non-cash working capital items		
Accounts receivable	(8,605)	(9,861)
Goods and services tax	2,937	4,513
Prepaid expenses	331	5,181
Accounts payable and accrued liabilities	(5,019)	(20,130)
Deferred revenue	81,542	33,181
	<u>602,170</u>	<u>277,172</u>
INVESTING ACTIVITIES		
Acquisition of capital assets	(58,703)	(86,654)
Proceeds on disposal of capital assets	9,000	-
	<u>(49,703)</u>	<u>(86,654)</u>
FINANCING ACTIVITIES		
Payments on demand loan	(82,408)	(85,313)
	<u>(82,408)</u>	<u>(85,313)</u>
NET CASH INFLOW	470,059	105,205
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>350,300</u>	<u>245,095</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 820,359</u>	<u>\$ 350,300</u>

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

a) Purpose

The Summerside Residents Association (the "Association") was incorporated as a not-for-profit corporation on July 31, 2000 under Section 9 of the Companies Act of the Province of Alberta, R.S.A. 1980. As such, the Association is exempt from income tax under Section 149 of the Income Tax Act. The Association owns and operates amenities for the use of its members, the residents of Summerside. The operations of the Association are governed by the Summerside Management Agreement dated August 2001 between the Association and Brookfield Residential (Alberta) LP ("Brookfield Residential").

b) Basis of Accounting

The financial statements of the Association have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

c) Cash and Cash Equivalents

Cash and cash equivalents consists of cash held at financial institutions and term deposits with maturity dates within three months of balance sheet date.

d) Revenue Recognition

The Association uses the deferral method of accounting for contributions. Contributions of capital assets or for the purchase of capital assets which are subject to amortization are deferred and amortized on the same basis as those capital assets. Contributions of capital assets or for the purchase of capital assets which are not subject to amortization, are recorded as a direct increase to net assets.

Membership and other fees are recognized as revenue in the year to which they relate. Restricted contributions are recognized as revenue in the year in which related expenses are incurred. Unrestricted contributions, such as grants and donations not designated for a specific purpose, are recognized as revenue when received if the amount can be reasonably estimated and collection is reasonably assured.

Program revenues, rental revenues, maintenance revenues, and interest are recorded on an accrual basis and recognized when amounts are known and collection is reasonably assured.

e) Use of Estimates

In accordance with ASNPO, estimates and assumptions are made by management in the preparation of these financial statements. These estimates may impact the amounts included in the financial statements. The most significant of these estimates are related to amortization and the estimated useful life of the capital assets and accrued liabilities. Actual results could differ from these estimates.

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

f) Capital Assets

Capital assets purchased by the Association are recorded at cost. Capital assets contributed to the Association are recorded at fair value on the date of contribution.

Amortization is based on estimated useful life calculated on a straight line basis as follows:

Buildings and vehicles	5-15 years
Boats and docks	5-10 years
Equipment, office equipment and maintenance equipment	5-12 years
Computer equipment	1-5 years
Park amenities	2-25 years

g) Impairment of Long-Lived Assets

Tangible capital assets are tested annually for impairment where impairment indicators are present. This would occur if an item no longer contributes to the Association's ability to provide services. Any excess of the item's carrying value, with no long-term service potential, over its residual value is recognized as an expense of the period.

h) Financial Instruments

A financial asset or liability is recognized when the Association becomes party to the contractual provisions of the financial instrument. All financial instruments, except derivative financial instruments, are initially measured at fair value and subsequently at cost or amortized cost. Derivative financial instruments are subsequently measured at fair value with changes being reported in net income.

Financial assets are tested for impairment when changes in circumstances indicate that the asset could be impaired. Transaction costs on the acquisition and sale of financial instruments are expensed for those items re-measured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

2. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are guaranteed investment certificates (GICs) totaling \$400,000 with interest rates ranging from 0.55% to 1.35% all of which mature February 21, 2018.

3. RELATED PARTY TRANSACTIONS

The Summerside Management Agreement grants Brookfield Residential control of the management of the Association and management of the Summerside amenities until the Effective Date (defined below). Until such time, the powers of the Officers and Directors to manage the business affairs of the Association are temporarily restrained.

The Effective Date is defined as the later of (i) the date upon which Brookfield Residential has sold its last lands within the Summerside development, or (ii) the date upon which all amounts owing to Brookfield Residential have been repaid. Brookfield Residential may, at an earlier date and at its discretion, transfer portions of the amenities or certain aspects of management to the Association.

During the year, the following transactions occurred with Brookfield Residential:

- a) The Association received \$8,726 (2016 - \$3,511) for services provided to Brookfield Residential which requires the Association to maintain certain public areas within the Brookfield communities. Of this amount, \$789 (2016 - \$nil) is included in accounts receivable at year end.
- b) The following expenses were incurred for services provided by Brookfield Residential to the Association which is included in professional fees:

	2017	2016
Administration	\$ 24,000	\$ 25,000

All transactions are in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

4. CAPITAL ASSETS

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 1,066,572	\$ 735,579	\$ 330,993	\$ 426,263
Vehicles	56,527	25,407	31,120	34,782
Boats	94,739	74,415	20,324	13,216
Docks	38,284	23,709	14,575	7,853
Equipment	167,562	80,620	86,942	94,972
Office equipment	54,223	43,189	11,034	2,724
Maintenance equipment	115,723	93,590	22,133	23,543
Computer equipment	22,600	17,550	5,050	7,851
Park amenities	299,493	152,929	146,564	163,761
	1,915,723	1,246,988	668,735	774,965
Land	2,015,000	-	2,015,000	2,015,000
	\$ 3,930,723	\$ 1,246,988	\$ 2,683,735	\$ 2,789,965

5. DEMAND LOAN

In February 2014, ATB provided a demand loan facility with a maximum amount of \$3,300,000. This loan bears interest at the ATB prime rate plus 0.45% per annum, is due on demand and is payable in monthly blended payments of \$15,300. The loan is secured by a general security agreement covering the Association's present and after acquired property and floating charge on land, a first mortgage agreement registered against the property in the amount of \$3,300,000, postponement and assignment of claims from Brookfield Residential, and comfort letter from Brookfield Residential covering all debt servicing shortfalls up to the Effective Date (defined in Note 3).

The loan is expected to be renewed each year. The principal payment estimated to be required in each of the next five years and thereafter are as follows :

2018	\$ 68,873
2019	\$ 135,040
2020	\$ 146,082
2021	\$ 152,326
2022	\$ 158,164
Thereafter	\$ 2,322,581

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

6. FINANCIAL INSTRUMENTS

The Association, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments; interest rate risk, credit risk and liquidity risk. There has been no change in the risk exposure since last year. The risks and related management strategies are discussed below:

a) Interest rate risk

The Association is exposed to interest rate cash flow risk as a result of the demand loan from ATB, whereby the cash flows required to service the debt will fluctuate with changes in market rates.

b) Credit risk

The Association is exposed to credit risk through its cash and cash equivalents and accounts receivable.

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Association's credit risk is primarily attributable to its accounts receivable. The accounts receivable represents annual charges not collected from members. The risk is mitigated due to the fact that the Association takes legal action on overdue accounts and places a lien on the property of the member and will collect the annual charge upon sale of the home if the member chooses not to pay the annual charge. The Association also has a number of members which minimizes the concentration of credit risk.

c) Liquidity risk

Liquidity risk is the risk that the Association would encounter difficulty in meeting obligations with financial liabilities.

Liquidity risk includes the risk that the Association will not have sufficient funds to settle a transaction on the due date. Liquidity risk arises from the accounts payable and accrued liabilities and the demand loan.

7. DEFERRED CAPITAL CONTRIBUTION

Deferred contributions relate to capital assets contributed to the Association by Brookfield Residential. The balance consists of \$1,000,000 (2016 - \$1,000,000), less accumulated amortization of \$700,000 (2016 - \$600,000).

The land contributed by Brookfield Residential in previous years is not subject to amortization and was therefore recorded as a direct increase to net assets.

SUMMERSIDE RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2017

8. NET DEFICIENCY

As stipulated in Schedule C of the Summerside Residents Association Brochure dated July 2000, the Developer may budget and set aside any of the accumulated excess of revenues over expenditures of the Association to create a reserve fund for the purpose of replacing future assets, maintaining the property and meeting contingencies. Currently, the Association has an unrestricted net deficiency of \$2,730,037 (2016 - \$3,211,318) and has internally restricted the net assets invested in capital assets of \$2,383,735 (2016 - \$2,389,965).

9. RECLASSIFICATION OF PRIOR YEAR BALANCES

Certain comparative figures have been reclassified to confirm with the current year's presentation. This reclassification has no effect on the prior year excess of revenues over expenses.