

**SUMMERSIDE RESIDENTS ASSOCIATION**

**FINANCIAL STATEMENTS**

**December 31, 2018**



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## Independent Auditor's Report

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To the Board of Directors of Summerside Residents Association

### Opinion

We have audited the financial statements of Summerside Residents Association (the "Association"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net deficiency and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018, 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.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants

Calgary, Alberta  
April 8, 2019

**SUMMERSIDE RESIDENTS ASSOCIATION**  
**Statement of Financial Position**  
**As at December 31**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 961,030	\$ 820,359
Accounts receivable (Note 3)	45,851	39,066
Prepaid expenses	12,913	10,116
	<u>1,019,794</u>	<u>869,541</u>
<b>CAPITAL ASSETS (Note 4)</b>	<u>2,692,182</u>	<u>2,683,735</u>
	<u><b>\$ 3,711,976</b></u>	<u><b>\$ 3,553,276</b></u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 55,409	\$ 50,600
Goods and services tax payable	1,163	23,794
Demand loan payable (Note 5)	2,919,023	2,983,066
Deferred revenue	573,401	542,118
	<u>3,548,996</u>	<u>3,599,578</u>
<b>DEFERRED CAPITAL CONTRIBUTION (Note 7)</b>	<u>200,000</u>	<u>300,000</u>
	3,748,996	3,899,578
<b>NET DEFICIENCY (Note 8)</b>		
Net assets invested in capital assets	2,492,182	2,383,735
Unrestricted net deficiency	(2,529,202)	(2,730,037)
	<u>(37,020)</u>	<u>(346,302)</u>
	<u><b>\$ 3,711,976</b></u>	<u><b>\$ 3,553,276</b></u>

Approved on behalf of the Association:

Blooper Director  
ASL 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>2018</u>	<u>2017</u>
<b>REVENUE</b>		
Membership fees	\$ 1,531,939	\$ 1,454,791
Program income	126,221	140,873
Amortization of deferred capital contributions	100,000	100,000
Beach club rental	74,389	65,992
Interest and other (Note 3)	69,738	105,581
	<u>1,902,287</u>	<u>1,867,237</u>
<b>EXPENSES</b>		
Salaries and benefits	714,963	661,287
Amortization	167,519	162,277
Programs	129,264	114,367
Administration	124,415	129,052
Loan interest	119,557	101,192
Beach club maintenance	119,226	90,059
Property tax (recovery)	91,249	(21,135)
Utilities	43,486	39,498
Professional fees (Note 3)	35,887	42,837
Repairs and maintenance	17,691	14,881
Security	16,960	20,716
Insurance	11,804	11,620
Advertising and promotion	3,255	31,879
Gain on disposal of assets	(2,271)	(6,344)
	<u>1,593,005</u>	<u>1,392,186</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u><u>\$ 309,282</u></u>	<u><u>\$ 475,051</u></u>

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

	<b>Invested in capital assets</b>	<b>Unrestricted</b>	<b>2018</b>	<b>2017</b>
<b>Balance, beginning of year</b>	\$ 2,383,735	\$ (2,730,037)	\$ (346,302)	\$ (821,353)
Acquisition of capital assets	176,422	(176,422)	-	-
Excess of revenue over expenses	-	309,282	309,282	475,051
Amortization of capital assets	(167,519)	167,519	-	-
Disposal of capital assets	(456)	456	-	-
Amortization of deferred capital contributions	100,000	(100,000)	-	-
<b>Balance, end of year</b>	<b>\$ 2,492,182</b>	<b>\$ (2,529,202)</b>	<b>\$ (37,020)</b>	<b>\$ (346,302)</b>

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

	<u>2018</u>	<u>2017</u>
<b>NET CASH INFLOW (OUTFLOW) RELATED TO</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	\$ 309,282	\$ 475,051
Items not affecting cash and cash equivalents		
Amortization of capital assets	167,519	162,277
Amortization of deferred capital contributions	(100,000)	(100,000)
Gain on disposal of capital assets	(2,271)	(6,344)
	<u>374,530</u>	<u>530,984</u>
Changes in non-cash working capital items		
Accounts receivable	(6,785)	(8,605)
Goods and services tax	(22,631)	2,937
Prepaid expenses	(2,797)	331
Accounts payable and accrued liabilities	4,809	(5,019)
Deferred revenue	31,283	81,542
	<u>378,409</u>	<u>602,170</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(176,422)	(58,703)
Proceeds on disposal of capital assets	2,727	9,000
	<u>(173,695)</u>	<u>(49,703)</u>
<b>FINANCING ACTIVITIES</b>		
Payments on demand loan	(64,043)	(82,408)
	<u>(64,043)</u>	<u>(82,408)</u>
<b>NET CASH INFLOW</b>	<b>140,671</b>	<b>470,059</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>820,359</u>	<u>350,300</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ <u>961,030</u></b>	<b>\$ <u>820,359</u></b>

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

**SUMMERSIDE RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2018**

**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, 2018**

**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, 2018**

**2. CASH AND CASH EQUIVALENTS**

Included in cash and cash equivalents are guaranteed investment certificates (GICs) totaling \$500,000 with interest rates ranging from 1.70% to 1.87% all of which mature on January 26, 2019

**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 \$6,677 (2017 - \$8,726) for services provided to Brookfield Residential which requires the Association to maintain certain public areas within Brookfield communities. Of this amount, \$nil (2017 - \$789) 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:

	2018	2017
Administration	\$ 24,000	\$ 24,000

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, 2018**

**4. CAPITAL ASSETS**

	2018		2017	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 1,197,987	\$ 841,849	\$ 356,138	\$ 330,993
Vehicles	57,767	29,068	28,699	31,120
Boats	75,781	61,878	13,903	20,324
Docks	43,389	27,995	15,394	14,575
Equipment	190,943	96,735	94,208	86,942
Office equipment	54,223	45,865	8,358	11,034
Maintenance equipment	110,349	95,141	15,208	22,133
Computer equipment	22,599	17,854	4,745	5,050
Park amenities	312,715	172,186	140,529	146,564
	<u>2,065,753</u>	<u>1,388,571</u>	<u>677,182</u>	<u>668,735</u>
Land	2,015,000	-	2,015,000	2,015,000
	<u>\$ 4,080,753</u>	<u>\$ 1,388,571</u>	<u>\$ 2,692,182</u>	<u>\$ 2,683,735</u>

**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 (increasing to \$21,037 after year end). 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 :

2019	\$ 142,454
2020	\$ 153,455
2021	\$ 159,565
2022	\$ 165,292
2023	\$ 171,427
Thereafter	\$ 2,126,830

**SUMMERSIDE RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2018**

**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 (2017 - \$1,000,000), less accumulated amortization of \$800,000 (2017 - \$700,000).

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.

**8. NET DEFICIENCY**

Currently, the Association has an unrestricted net deficiency of \$2,529,202 (2017 - \$2,730,037) and has internally restricted the net assets invested in capital assets of \$2,492,182 (2017 - \$2,383,735).