# S.R. Homeowners Association
## Financial Statements
For the year ended December 31, 2019

Contents

Tel: 403 266 5608
Fax: 403 233 7833
www.bdo.ca

BDO Canada LLP
903 - 8th Avenue SW, Suite 620
Calgary AB T2P 0P7
Canada

# Independent Auditor's Report

**To the Board of Directors of**
**S.R. Homeowners Association**

*Opinion*
We have audited the financial statements of S.R. Homeowners Association (the "Association"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations and 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, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

*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.

*Emphasis of Matter*
We draw attention to Note 2 to the financial statements, which describes that the Association adopted Canadian accounting standards for not-for-profit organizations on inception. As 2019 was the first year of operations for the Association, first-time adoption has no impact on prior years and no comparatives have been presented. Our opinion is not modified in respect of this matter.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*
Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

## Independent Auditor's Report (continued)

*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
March 27, 2020

# S.R. Homeowners Association
# Statement of Financial Position

**December 31, 2019**

## Assets

| | |
|---|---|
| **Current** | |
| Cash | $ 4,866 |
| Accounts receivable (Note 3) | 5,439 |
| | $ 10,305 |

## Liabilities and Net Assets

| | |
|---|---|
| **Current** | |
| Accounts payable and accrued liabilities (Note 5) | $ 12,533 |
| Operating loan - due to Melcor (Note 4) | 46,750 |
| | 59,283 |
| **Unrestricted net deficiency** | (48,978) |
| | $ 10,305 |

Approved on behalf of the board:

_______________, Director _______________, Director

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

# S.R. Homeowners Association
# Statement of Operations and Net Deficiency

**For the year ended December 31, 2019**

| | | |
|---|---|---|
| **Membership fee revenue** | $ | 77,820 |
| **Expenditures** | | |
| Administration fees (Note 5) | | 24,000 |
| Advertising | | 1,654 |
| Community event costs | | 6,985 |
| Interest and bank charges | | 1,447 |
| Office | | 25,501 |
| Professional fees | | 17,371 |
| Repairs and maintenance | | 44,705 |
| Utilities | | 7,099 |
| | | 128,762 |
| **Deficiency of revenue over expenditures before the following item** | | (50,942) |
| **Other income** | | 1,964 |
| **Deficiency of revenue over expenditures, being unrestricted net deficiency end of year** | $ | (48,978) |

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

# S.R. Homeowners Association
# Statement of Cash Flows

**For the year ended December 31, 2019**

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Deficiency of revenue over expenditures for the year | $ | (48,978) |
| Change in non-cash working capital items | | |
| Accounts receivable | | (5,439) |
| Accounts payable and accrued liabilities | | 12,533 |
| | | (41,884) |
| **Cash flows from financing activity** | | |
| Advances from Melcor (Note 4) | | 46,750 |
| **Increase in cash during the year, being cash end of year** | $ | 4,866 |

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

## 1. Summary of significant accounting policies

**Nature of operations**

The S.R. Homeowners Association (the "Association") is a not-for-profit organization that owns and operates amenities for the use of its members, the residents of S.R.. The Association was incorporated as a not-for-profit organization on January 1, 2012 under the Canada Societies Act. As such, the Association is exempt from income tax under Section 149 of the Income Tax Act and, therefore, has made no provisions for income taxes in these financial statements. The community was developed by Sunset Properties Inc. (the "Developer"). The Association is managed by Melcor Developments Ltd. ("Melcor"), and is governed by a Board of Directors, constituted, appointed and elected pursuant to the By-Laws of the Association. The Association commenced operations in 2019.

**Basis of accounting**

These financial statements of the Association have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO"). These are the Association's first financial statements in accordance with ASNPO, which has been adopted since inception.

**Cash**

Cash consists of balances held with financial institutions.

**Use of estimates**

The preparation of financial statements in accordance with ASNPO requires management 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 and may have an impact on future periods. Accounts specifically affected by estimates in these financial statements are accounts receivable and accounts payable and accrued liabilities.

**Revenue recognition**

The Association uses the deferral method of accounting for contributions. Contributions of capital assets, or funds 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 funds for the purchase of capital assets, which are not subject to amortization are recorded as a direct increase to net assets.

Membership 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 are recognized as revenue when received if the amount can be reasonably estimated and collection is reasonably assured. Deferred revenue includes membership fees that arise from receipt of payments in advance of the period in which they will be earned.

## 1. Summary of significant accounting policies (continued)

**Financial instruments**

All financial instruments are initially measured at fair value and subsequently measured at amortized cost, except for equities quoted on the active market which are required to be measured at fair value, and the financial instruments which are designated at fair value.

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.

## 2. First-time adoption

The Association adopted the requirements of the accounting framework, Canadian accounting standards for not-for-profit organizations (ASNPO) or Part III of the requirements of the CPA Canada Handbook - Accounting. These are the Association's first financial statements prepared in accordance with this framework, which has been adopted since inception. As 2019 was the first year of operations for the Association, first-time adoption has no impact on prior years and no comparatives have been presented.

## 3. Accounts receivable

Included in accounts receivable is $1,917 receivable from the government for Goods and Services Taxes.

## 4. Note payable

During the year Melcor provided a note payable of $46,750 to the Association. This loan is unsecured, non-interest bearing and is repayable when the Association is in the financial position to do so.

## 5. Related party transactions

The Management Agreement grants Melcor and the Developer control of the management of the Association and management of the community amenities until the Effective Date.

The Effective Date is defined as the later of (i) the date upon which the Developer have sold their last lands within the S.R. development, or (ii) the date upon which all amounts owing to the Developer have been repaid. The Developer may, at an earlier date and at their discretion, transfer portions of the amenities or certain aspects of management to the Association. After the Effective Date, the Association becomes independent from Melcor and the Developer and will no longer receive their financial support.

During the year, the following related party transactions occurred:

Administration fees of $24,000 were paid to Melcor, of which $6,000 remains in accounts payable and accrued liabilities at year end, as well as $33 of expense reimbursements due to Melcor.

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 parties.

## 6. Financial instruments

The Association, through its financial assets and liabilities, has exposure to the following risks from its
use of financial instruments: credit risk and liquidity risk. The risks and related management strategies are discussed below:

(a) Credit risk
Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Association's credit risk is primarily related to its accounts receivable and cash. 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 growing membership which reduces the concentration of credit risk. The credit risk on cash is limited because the counterparty is a major Canadian financial institution.

(b) Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial obligations, including the risk the Association will not have sufficient funds to settle a transaction on the due date. The Association is exposed to this risk in respect of its accounts payable and accrued liabilities. This risk is mitigated by the Association having support from Melcor.