

King's Heights Homeowners Association
Financial Statements
For the year ended December 31, 2020

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 10



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Independent Auditor's Report

**To the Board of Directors of
King's Heights Homeowners Association**

Opinion

We have audited the financial statements of King's Heights Homeowners Association (the "Association"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations and changes in net assets 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, 2020, 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.

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 the 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:



Independent Auditor's Report

- ♦ 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
May 5, 2021

King's Heights Homeowners Association **Statement of Financial Position**

December 31	2020	2019
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Assets

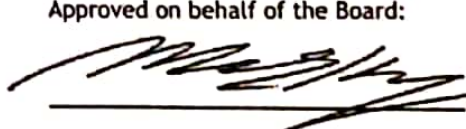
Current		
Cash	\$ 199,416	\$ 152,493
Accounts receivable (Note 3)	15,172	19,876
Goods and services tax receivable	7,158	5,696
Prepaid insurance	5,077	-
	\$ 226,823	\$ 178,065

Liabilities and Net Assets

Current		
Accounts payable and accrued liabilities (Note 3)	\$ 14,321	\$ 12,722
Deferred revenue	-	1,280
	14,321	14,002
Net assets		
Unrestricted	162,502	114,063
Internally restricted (Note 2)	50,000	50,000
	212,502	164,063
	\$ 226,823	\$ 178,065

Commitments (Note 4)

Approved on behalf of the Board:

 _____, Director

 _____, Director

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

King's Heights Homeowners Association Statement of Operations

For the year ended December 31	2020	2019
Revenue (Note 3)	\$ 144,303	\$ 261,346
Expenditures		
AGM costs	4,634	3,855
Administration fees (Note 3)	30,000	24,000
Advertising and promotion	467	18,979
Bank charges	25	36
Insurance	4,331	-
Legal and audit fees	6,825	13,453
Merchant processing fees	3,603	3,627
Office expenses	9,338	13,658
Repairs and maintenance	29,570	25,762
Utilities	9,366	7,120
	<u>98,159</u>	<u>110,490</u>
Excess of revenue over expenditures before undernoted item	46,144	150,856
Other income	<u>2,295</u>	<u>7,038</u>
Excess of revenue over expenditures for the year	<u>\$ 48,439</u>	<u>\$ 157,894</u>

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

King's Heights Homeowners Association Statement of Changes in Net Assets

For the year ended December 31

	Unrestricted	Internally restricted	Total 2020	Total 2019
Balance, beginning of year	\$ 114,063	\$ 50,000	\$ 164,063	\$ 6,169
Excess of revenue over expenditures for the year	48,439	-	48,439	157,894
Balance, end of year	\$ 162,502	\$ 50,000	\$ 212,502	\$ 164,063

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

King's Heights Homeowners Association Statement of Cash Flows

For the year ended December 31	2020	2019
Cash flows from operating activities		
Excess of revenue over expenditures for the year	\$ 48,439	\$ 157,894
Change in non-cash working capital items		
Accounts receivable	4,704	(3,976)
Goods and services tax	(1,462)	(10,275)
Prepaid insurance	(5,077)	-
Accounts payable and accrued liabilities	1,599	(10,863)
Deferred revenue	(1,280)	(36,362)
Increase in cash during the year	46,923	96,418
Cash, beginning of year	152,493	56,075
Cash, end of year	\$ 199,416	\$ 152,493

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

King's Heights Homeowners Association

Notes to the Financial Statements

December 31, 2020

1. Summary of significant accounting policies

Nature of operations

The King's Heights Homeowners Association (the "Association") is a not-for-profit organization that owns and operates amenities for the use of its members, the residents of King's Heights. The Association was incorporated as a not-for-profit organization on October 1, 2006 under the Canada Societies Act. As such, the Association is exempt from income tax under Section 149 of the Income Tax Act. 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.

On January 1, 2018 a turn-over agreement was entered into with Melcor Developments Ltd. ("Melcor"). The turn-over agreement specified that on the effective date, Melcor will deliver to the Association: land titles to the private parcels, a bill of sale for all the chattels owned by Melcor and used in the operation of the private parcels and reserves, and a transfer of all the encumbrances for each property in the community. The effective date of the turn-over agreement was January 1, 2020.

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").

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 would be earned.

King's Heights Homeowners Association

Notes to the Financial Statements

December 31, 2020

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. Net assets

The Association has the discretion to transfer amounts to internally restricted net assets to be used for repairs or replacements in the future. Currently the Association has unrestricted assets of \$162,502 (2019 - \$114,063) and has internally restricted net assets of \$50,000 (2019 - \$50,000).

3. Related party transactions

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

On January 1, 2020, the Effective Date, Melcor transferred ownership to the Association. As of the Effective Date, Melcor will no longer provide financial support to the Association.

During the year, the following related party transactions occurred:

a) Melcor collected builder fees of \$2,900 (2019 - \$11,995) on behalf of the Association. At year end, \$1,000 (2019 - \$3,905) remains owing from Melcor to the Association and is included in accounts receivable.

b) The Association agreed to a management contract with Melcor to assist with managing the operations for \$7,500 per quarter for 2020. Management fees of \$30,000 (2019 - \$24,000) were paid to Melcor, of which \$7,500 (2019 - \$6,000) remains in accounts payable and accrued liabilities at year end.

c) Advertising fees of \$nil (2019 - \$1,050) were paid to a Director of the Association.

All 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.

King's Heights Homeowners Association

Notes to the Financial Statements

December 31, 2020

4. Commitments

On January 20, 2021, the Association renewed the Management Agreement (the Agreement) with Melcor. The Agreement employs Melcor as Manager exclusively as its agent to manage the Assets of the Association for a period of one year commencing January 1, 2021. The management fees to be paid is as follows:

2021	\$ <u>28,000</u>
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5. 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 builder fees not yet collected from Melcor (Note 3) as well as fees not yet collected from homeowners. 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.

(b) Liquidity risk

Liquidity risk is the risk that the Association 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 internally restricted funds.

6. COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", resulted in worldwide emergency measures which have caused disruptions to businesses globally resulting in an economic slowdown. The duration and long-term impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length or effects of these developments, including the impact on the financial results of the Association in future periods.
