

**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**

**FINANCIAL STATEMENTS**

**December 31, 2017**



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## Independent Auditor's Report

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### To the Board of Directors of Chappelle Gardens Residents Association

We have audited the accompanying financial statements of the Chappelle Gardens Residents Association, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets 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 Chappelle Gardens 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  
May 2, 2018



**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Statement of Operations**  
**For the year ended December 31**

	<u>2017</u>	<u>2016</u>
<b>REVENUE</b>		
Membership fees	\$ 543,328	\$ 432,148
Amortization of deferred capital contribution (Note 5)	119,334	4,058
Rental and programming revenue	61,466	5,924
Interest and other (Note 3)	40,871	13,722
	<u>764,999</u>	<u>455,852</u>
<b>EXPENSES</b>		
Salaries and benefits	330,436	168,746
Amortization of capital assets	219,195	15,440
Interest	89,769	1,364
Administration	73,396	23,705
Repairs and maintenance	52,337	26,428
Professional fees (Note 3)	52,251	41,819
Utilities	47,756	28,036
Programs and events	39,963	12,636
Property tax	11,038	28,221
Insurance	6,412	3,242
Advertising and promotion	3,401	1,338
	<u>925,954</u>	<u>350,975</u>
<b>(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES</b>	<u>\$ (160,955)</u>	<u>\$ 104,877</u>

**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Statement of Changes in Net Assets (Deficiency)**  
**For the year ended December 31**

	<b>Invested in capital assets</b>	<b>Unrestricted</b>	<b>2017</b>	<b>2016</b>
<b>Balance, beginning of year</b>	\$ 4,909,913	\$ (1,987,580)	\$ 2,922,333	\$ (27,544)
Acquisition of capital assets	1,074,824	(1,074,824)	-	-
Contributed capital assets - land	-	-	-	2,845,000
Excess (deficiency) of revenue over expenses	-	(160,955)	(160,955)	104,877
Amortization of capital assets	(219,195)	219,195	-	-
Amortization of deferred capital contribution	119,334	(119,334)	-	-
<b>Balance, end of year</b>	<b>\$ 5,884,876</b>	<b>\$ (3,123,498)</b>	<b>\$ 2,761,378</b>	<b>\$ 2,922,333</b>

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

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

	<u>2017</u>	<u>2016</u>
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO:</b>		
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenue over expenditures	\$ (160,955)	\$ 104,877
Items not affecting cash		
Amortization of capital assets	219,195	15,440
Amortization of deferred capital contribution	<u>(119,334)</u>	<u>(4,058)</u>
	(61,094)	116,259
Changes in non-cash working capital items		
Accounts receivable	749	(10,634)
Goods and services tax	1,964	(347)
Accounts payable and accrued liabilities	8,852	9,981
Deferred revenue	69,150	(7,638)
Prepaid expenses	<u>3,278</u>	<u>(3,307)</u>
	83,993	(11,945)
	<u>22,899</u>	<u>104,314</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	<u>(1,074,824)</u>	<u>(1,993,922)</u>
<b>FINANCING ACTIVITIES</b>		
Repayments of demand loan payable	(27,106)	-
Advances from demand loan payable	<u>1,034,905</u>	<u>1,975,145</u>
	<u>1,007,799</u>	<u>1,975,145</u>
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>(44,126)</b>	<b>85,537</b>
<b>CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR</b>	<u>79,588</u>	<u>(5,949)</u>
<b>CASH, END OF YEAR</b>	<u>\$ 35,462</u>	<u>\$ 79,588</u>

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



**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2017**

**1. SIGNIFICANT ACCOUNTING POLICIES**

a) Purpose

The Chappelle Gardens Residents Association (the "Association") was incorporated as a not-for-profit corporation on August 25, 2010 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 Chappelle Gardens. The operations of the Association are governed by the Chappelle Gardens Management Agreement (the "Agreement") dated March 31, 2011, as amended by an Amending Agreement dated April 15, 2011 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) 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 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.

d) 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.

**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2017**

**1. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

e) 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:

Equipment	5 years
Vehicles	10 years
Park Amenities	25 years
Building	40 years

Assets under construction are recorded at cost. Upon completion, when the asset is ready for use, total costs are transferred to the appropriate capital asset account and amortization commences at that time.

f) 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 excess of revenue over expenses.

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.

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.



**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2017**

**2. CAPITAL ASSETS**

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	\$ 122,723	\$ 36,533	\$ 86,190	\$ 31,310
Vehicles	105,491	25,742	79,749	56,267
Park Amenities	3,676,635	133,741	3,542,894	4,792
Building	2,267,267	58,362	2,208,905	26,121
Assets under construction	-	-	-	4,934,248
	6,172,116	254,378	5,917,738	5,052,738
Land	2,845,000	-	2,845,000	2,845,000
	<b>\$ 9,017,116</b>	<b>\$ 254,378</b>	<b>\$ 8,762,738</b>	<b>\$ 7,897,738</b>

**3. RELATED PARTY TRANSACTIONS**

The Agreement grants Brookfield Residential control of the management of the Association and management of the Chappelle 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) six (6) months after the date upon which Brookfield Residential has sold its last lands within the Chappelle Gardens Lands, 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 to the Association:

a) The Association received \$19,446 (2016 - \$10,539) for services provided to Brookfield Residential which requires the Association to maintain certain public areas within the Brookfield communities. An amount due from Brookfield Residential of \$7,010 (2016 - \$2,258) is included in accounts receivable at year end.

b) The following expenses were incurred for services provided by Brookfield Residential to the Association:

	2017	2016
Administration	<b>\$ 32,000</b>	<b>\$ 25,000</b>

The amount above is included in professional fee expense at year end.

c) During the year, Brookfield Residential provided contributions of \$10,459 for a toolshed initiative to the residents in the Association of which \$1,088 was expensed during the year and \$9,371 was capitalized. The restricted contribution of \$9,371 will be recognized to income on the same basis as the related capital assets are amortized.

**CHAPPELLE GARDENS RESIDENTS ASSOCIATION**  
**Notes to the Financial Statements**  
**December 31, 2017**

**3. RELATED PARTY TRANSACTIONS, CONTINUED**

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 upon by the related parties.

**4. DEMAND LOAN**

In December 2016, Alberta Treasury Branch ("ATB") provided the Association with a demand loan facility with a maximum amount of \$3,415,886. 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 \$13,949 (2016 - \$8,488). The loan is secured by a general security agreement covering the Association's present and acquired property and proceeds, a first mortgage agreement registered against the property in the amount of \$3,415,886, postponement and assignment of claims from Brookfield Residential, and a 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 payments estimated to be required in each of the next five years and thereafter are as follows:

2018	\$	59,514
2019		61,723
2020		64,008
2021		66,390
2022		139,342
Thereafter		<u>2,591,967</u>
		<u>\$ 2,982,944</u>

**5. DEFERRED CAPITAL CONTRIBUTIONS**

Deferred capital contributions relate to capital assets contributed to the Association by Brookfield Residential. The balance consists of \$3,009,371 (2016 - \$3,000,000), less accumulated amortization of \$131,509 (2016 - \$12,175). The land contributed by Brookfield Residential in 2016 is not subject to amortization and was therefore recorded as a direct increase to net assets.

**CHAPPELLE GARDENS 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 have been no significant changes in risk since prior 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 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, goods and service tax payable, and demand loan payables.

**7. NET ASSETS (DEFICIENCY)**

The Association may budget and set aside any of the accumulated excess of revenues over expenditures 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 \$3,123,498 (2016 - \$1,987,580) and has internally restricted the net assets invested in capital assets of \$5,884,876 (2016 - \$4,909,913).