

MCKENZIE TOWNE COUNCIL

FINANCIAL STATEMENTS

May 31, 2018



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Independent Auditor's Report

To the Board of Directors of McKenzie Towne Council

We have audited the accompanying financial statements of the McKenzie Towne Council, which comprise the statement of financial position as at May 31, 2018, 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 McKenzie Towne Council as at May 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.

Other Matters

The financial statements of McKenzie Towne Council for the year ended May 31, 2017 were audited by another auditor who issued an unmodified opinion on those financial statements on September 19, 2017.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
September 24, 2018

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MCKENZIE TOWNE COUNCIL
Statement of Financial Position
As at May 31

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 6,753	\$ 952,630
Accounts receivable	22,015	16,312
Goods and services tax receivable	4,151	10,113
Prepaid expenses and deposits	24,611	34,005
Short-term investment (Note 3)	141,214	-
	<u>198,743</u>	<u>1,013,060</u>
CAPITAL ASSETS (Note 2)	5,403,146	4,458,871
LONG-TERM INVESTMENT (Note 3)	<u>300,000</u>	<u>-</u>
	<u>\$ 5,901,890</u>	<u>\$ 5,471,931</u>
 CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 163,085	\$ 303,831
Deferred revenue	56,862	375,395
Demand loan (Note 6)	292,591	-
	<u>512,538</u>	<u>679,226</u>
 DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 4)	<u>1,071,184</u>	<u>776,229</u>
	1,583,722	1,455,455
NET ASSETS INVESTED IN CAPITAL ASSETS	4,039,371	3,682,644
INTERNALLY RESTRICTED RESERVE FUND	364,496	333,832
UNRESTRICTED NET DEFICIENCY	<u>(85,699)</u>	<u>-</u>
	<u>\$ 5,901,890</u>	<u>\$ 5,471,931</u>

Commitments (Note 5)

Approved on behalf of the Association:



Director

 Director

MCKENZIE TOWNE COUNCIL
Statement of Operations
For the year ended May 31

	<u>2018</u>	<u>2017</u>
REVENUES		
Membership fees	\$ 1,480,388	\$ 1,480,624
Programming	168,137	167,199
Maintenance contracts	146,791	140,034
Facility rental	103,071	105,076
Amortization of deferred contributions (Note 4)	45,045	46,261
Interest and other	7,785	9,177
Finance charges	7,906	5,993
	<u>1,959,123</u>	<u>1,954,364</u>
EXPENSES		
Facility operations	5,574	4,115
Amenity maintenance	278,915	255,136
Administration	197,201	168,306
Programming	165,338	131,010
Amortization of capital assets		
Purchased	103,832	99,413
Contributed (Note 4)	45,045	46,261
Salaries and wages	867,034	925,994
	<u>1,662,939</u>	<u>1,370,984</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM	296,184	583,380
GAIN ON DISPOSAL OF CAPITAL ASSET	<u>5,508</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 301,692</u>	<u>\$ 583,380</u>

MCKENZIE TOWNE COUNCIL
Statement of Changes in Net Assets
For the year ended May 31

	Investment in Capital Assets	Internally Restricted	Unrestricted	2018	2017
Net assets, beginning of year	\$ 3,682,644	\$ 333,832	\$ -	\$ 4,016,476	\$ 3,692,347
Excess of revenues over expenses	(103,832)	664	404,860	301,692	324,129
Investment in property and equipment	753,150	-	(753,150)	-	-
Debt advances for capital assets	(292,591)	-	292,591	-	-
Transfer from unrestricted assets (Note 1)	-	30,000	(30,000)	-	-
Net assets, end of year	\$ 4,039,371	\$ 364,496	\$ (85,699)	\$ 4,318,168	\$ 4,016,476

MCKENZIE TOWNE COUNCIL
Statement of Cash Flows
For the year ended May 31

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 301,692	\$ 324,129
Items not affecting cash:		
Amortization of capital assets	148,877	145,674
Amortization of deferred contributions	(45,045)	(46,261)
Gain on disposal of capital asset	(5,508)	-
Change in non-cash working capital		
Accounts receivable	(5,703)	79,799
Goods and services tax receivable	5,962	(10,113)
Prepaid expenses and deposits	9,392	(18,215)
Accounts payable and accrued liabilities	(140,746)	122,051
Deferred revenue	(318,533)	(277,126)
	<u>(49,612)</u>	<u>319,938</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of investments	(441,214)	-
Acquisition of capital assets	(753,150)	(563,086)
Sale of investments	-	211,466
Proceeds on disposal of capital asset	5,508	-
	<u>(1,188,856)</u>	<u>(351,620)</u>
CASH FLOW FROM FINANCING ACTIVITY		
Advances from demand loan	<u>292,591</u>	-
DECREASE IN CASH DURING YEAR	(945,877)	(31,682)
CASH, BEGINNING OF YEAR	<u>952,630</u>	<u>984,312</u>
CASH, END OF YEAR	<u>\$ 6,753</u>	<u>\$ 952,630</u>

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

a) Purpose

The McKenzie Towne Council (the "Council") was incorporated as a not for profit corporation on October 11, 1995 under Section 9 of the Companies Act of the Province of Alberta, R.S.A. 1980. As such, the Council is exempt from income tax under the Income Tax Act. The Council owns and operates amenities for the use of its members, the residents of McKenzie Towne Council.

b) Basis of accounting

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

c) Revenue recognition

The Council 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 assets which are not subject to amortization are recorded as a direct increase to net assets.

Membership, program, rental and maintenance fees are recognized as revenue in the year to which they relate. Interest and investment income is also recognized in the year to which it relates. 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, or if the amount can be reasonably estimated and collection is reasonably assured. Deferred revenue consists of membership and other fees collected that relate to the next fiscal year.

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.

e) Capital assets

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

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

McKenzie Towne Hall	40 years
Furniture and equipment	5 years
Private park amenities	25 years
Automotive	10 years
Interim playfield	20 years
Electric sign	15 years
Traffic circle amenities	25 years
Clock	25 years
Garage	40 years

Land and work in progress are not subject to amortization.

f) Internally restricted net assets

The Board of Directors have internally restricted amounts to establish a reserve fund to offset the future costs of significant capital asset additions, replacements or repairs. The Board of Directors have also internally restricted amounts currently invested in capital assets.

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

g) Cash

Cash includes cash held at financial institutions and cash on hand.

h) Investments

Short-term investments consist of guaranteed investment certificates ("GICs") with terms of maturity greater than 90 days, but no more than one year, from the balance sheet date. Long-term investments consist of GICs with terms of maturity more than one year from the balance sheet date.

i) Impairment of long-lived assets

Capital assets are tested for impairment where impairment indicators are present. This would occur if an item no longer contributes to the Council'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.

j) Financial instruments

All financial instruments are initially measured at fair value and subsequently measured at amortized cost, except for equities quoted on an active market which are required to be measured at fair value, and 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 May 31 each year and charged to the financial instrument for those measured at amortized cost.

2. CAPITAL ASSETS

			2018		2017	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value		
McKenzie Towne Hall	\$ 3,432,179	\$ 1,023,396	\$ 2,408,783	\$ 2,475,798		
Furniture and equipment	179,027	144,583	34,444	15,231		
Private park amenities	145,263	85,346	59,917	65,728		
Automotive	107,907	102,754	5,153	15,082		
Interim playfield	74,304	46,630	27,674	31,389		
Electric sign	233,769	167,431	66,338	78,274		
Traffic circle amenities	153,563	115,624	37,939	44,082		
Clock	60,917	55,028	5,889	8,326		
Garage	81,224	12,691	68,533	70,563		
	4,468,153	1,753,483	2,714,670	2,804,473		
Land	1,080,000	-	1,080,000	1,080,000		
Work in progress	1,608,476	-	1,608,476	574,398		
	<u>\$ 7,156,629</u>	<u>\$ 1,753,483</u>	<u>\$ 5,403,146</u>	<u>\$ 4,458,871</u>		

Land includes two sites occupied by the McKenzie Towne Hall and private 1.4 acre park. The Council has private park amenities on land that is owned by the City of Calgary. The traffic circle consists of landscaping and other improvements on land owned by the City of Calgary. The clock is located in a building owned by a third party. Work in progress relates to the Prestwick Commons year-round water park project to be completed in fiscal year 2019.

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2018

3. INVESTMENTS

The Council holds two GICs with ATB Financial. The GICs are non redeemable and bear interest at 2.20% maturing March 12, 2019 and 2.63% maturing March 12, 2021 respectively. These investments have been classified as short-term or long-term based on their maturity dates.

	2018	2017
Short-term investment	\$ 141,214	\$ -
Long-term investment	300,000	-
	<u>\$ 441,214</u>	<u>\$ -</u>

4. DEFERRED CONTRIBUTIONS

Deferred contributions relate to capital assets contributed to the Council by Carma Developers LP ("Carma") and restricted government grants.

Contributions from Carma amount to \$1,403,010 (2017 - \$1,403,010) less accumulated amortization of \$671,826 (2017 - \$626,781). The land contributed by Carma in 2005 is not subject to amortization and therefore was recorded as a direct increase to net assets. Contributions related to a government grant amount to \$340,000 (2017 - \$nil) less accumulated amortization of \$nil (2017 - \$nil). The grant is not yet subject to amortization as the entire grant pertains to capital assets that are included in work in progress as at May 31, 2018 and, consequently, are not yet being amortized.

5. COMMITMENTS

The Council has a commitment for a photocopier and a postal premise lease requiring minimum annual payments over the next four years as follows:

2019	\$ 9,210
2020	5,924
2021	6,103
2022	4,670
	<u>\$ 25,907</u>

6. DEMAND LOAN

The Council has access to a demand revolving loan to a maximum of \$1,000,000. The demand revolving loan bears interest at prime rate plus 0.65% per annum and is payable on demand. The demand revolving loan is secured by an on demand collateral land mortgage and assignment of rents over all lands and premises, assignment of all risk insurance and assignment of the annual dues from homeowners. As at year-end the Council had drawn \$292,591 (2017 - \$nil) on the demand revolving loan.

7. FINANCIAL INSTRUMENTS

The Council, 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. The Council manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. Other than noted below, there have been no change in the risk exposure since last year. The risks and related management strategies are discussed below:

a) Interest rate risk

The Council is exposed to interest rate risk to the extent that changes in market interest rates impact its investment income from its investments. The Council is also exposed to interest rate risk on its floating rate demand loan. The risk is reduced to a minimum since the Council mitigates this risk by investing in multiple GICs which guarantee the return on investment due to fixed interest rates and maturity dates.

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2018

7. FINANCIAL INSTRUMENTS, CONTINUED

b) Credit risk

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

The Council'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 Council 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 credit risk on cash is limited because the counterparty is a major Canadian financial institution.

c) Liquidity Risk

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

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

8. RECLASSIFICATION OF COMPARATIVE FIGURES

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.