

MCKENZIE TOWNE COUNCIL

FINANCIAL STATEMENTS

May 31, 2019



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Independent Auditor's Report

To the Board of Directors of McKenzie Towne Council

Opinion

We have audited the financial statements of McKenzie Towne Council (the "Council"), which comprise the statement of financial position as at May 31, 2019, and the statements of operations, 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 Council as at May 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.

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 Council 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council'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 Council'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 Council'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 Council 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
September 16, 2019

MCKENZIE TOWNE COUNCIL
Statement of Financial Position
As at May 31

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 150,962	\$ 6,753
Accounts receivable	14,048	22,015
Goods and services tax receivable	-	4,151
Prepaid expenses and deposits	33,693	24,611
Short-term investment (Note 3)	<u>131,892</u>	<u>141,214</u>
	330,595	198,744
CAPITAL ASSETS (Note 2)	5,476,879	5,403,146
LONG-TERM INVESTMENTS (Note 3)	<u>454,309</u>	<u>300,000</u>
	<u>\$ 6,261,783</u>	<u>\$ 5,901,890</u>
 CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 101,866	\$ 163,085
Goods and services tax payable	15,053	-
Deferred revenue	490,435	56,862
Demand loan (Note 6)	<u>96,555</u>	<u>292,591</u>
	703,909	512,538
 DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS (Note 4)	<u>1,012,539</u>	<u>1,071,184</u>
	1,716,448	1,583,722
 NET ASSETS INVESTED IN CAPITAL ASSETS	4,367,785	4,039,371
INTERNALLY RESTRICTED RESERVE FUND	467,690	364,496
UNRESTRICTED NET DEFICIENCY	<u>(290,140)</u>	<u>(85,699)</u>
	<u>\$ 6,261,783</u>	<u>\$ 5,901,890</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>2019</u>	<u>2018</u>
REVENUES		
Membership fees	\$ 1,479,965	\$ 1,480,388
Programming	159,398	168,137
Maintenance contracts	145,174	146,791
Facility rental	145,782	103,071
Amortization of deferred contributions (Note 4)	58,645	45,045
Grants	27,190	-
Interest and other	18,828	7,785
Finance charges	7,897	7,906
	<u>2,042,879</u>	<u>1,959,123</u>
EXPENSES		
Facility operations	9,250	5,574
Amenity maintenance	376,843	278,915
Administration	199,399	197,201
Programming	159,195	165,338
Amortization of capital assets		
Purchased	147,612	103,832
Contributed (Note 4)	58,645	45,045
Salaries and wages	871,492	867,034
	<u>1,822,436</u>	<u>1,662,939</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM	220,443	296,184
GAIN ON DISPOSAL OF CAPITAL ASSETS	<u>6,724</u>	<u>5,508</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 227,167</u>	<u>\$ 301,692</u>

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

	Investment in Capital Assets	Internally Restricted	Unrestricted	2019	2018
Net assets, beginning of year	\$ 4,039,371	\$ 364,496	\$ (85,699)	\$ 4,318,168	\$ 4,016,476
Excess of revenues over expenses	(150,189)	3,194	374,162	227,167	301,692
Investment in property and equipment	282,567	-	(282,567)	-	-
Debt repayments for capital assets	196,036	-	(196,036)	-	-
Transfer from unrestricted assets (Note 1)	-	100,000	(100,000)	-	-
Net assets, end of year	\$ 4,367,785	\$ 467,690	\$ (290,140)	\$ 4,545,335	\$ 4,318,168

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

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 227,167	\$ 301,692
Items not affecting cash:		
Amortization of capital assets		
Purchased	147,612	103,832
Contributed	58,645	45,045
Amortization of deferred contributions	(58,645)	(45,045)
Accrued interest receivable	(11,879)	-
Gain on disposal of capital asset	(6,724)	(5,508)
Change in non-cash working capital		
Accounts receivable	7,967	(5,703)
Goods and services tax	19,204	5,962
Prepaid expenses and deposits	(9,082)	9,392
Accounts payable and accrued liabilities	(61,219)	(140,746)
Deferred revenue	433,573	(318,533)
	<u>746,619</u>	<u>(49,612)</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of investments	(274,321)	(441,214)
Acquisition of capital assets	(282,567)	(753,150)
Sale of investments	141,214	-
Proceeds on disposal of capital asset	9,300	5,508
	<u>(406,374)</u>	<u>(1,188,856)</u>
CASH FLOW FROM (USED IN) FINANCING ACTIVITY		
Advances from (repayment of) demand loan	(196,036)	292,591
INCREASE (DECREASE) IN CASH DURING YEAR	144,209	(945,877)
CASH, BEGINNING OF YEAR	<u>6,753</u>	<u>952,630</u>
CASH, END OF YEAR	<u>\$ 150,962</u>	<u>\$ 6,753</u>

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

a) Purpose

The McKenzie Towne Council (the "Council") was incorporated as a not-for-profit organization 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
Splash park	25 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.

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

			2019		2018	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value		
McKenzie Towne Hall	\$ 3,457,657	\$ 1,109,838	\$ 2,347,819	\$ 2,408,783		
Furniture and equipment	172,856	145,077	27,779	34,444		
Private park amenities	145,263	91,156	54,107	59,917		
Automotive	144,444	86,264	58,180	5,153		
Interim playfield	74,304	50,346	23,958	27,674		
Electric sign	233,769	179,367	54,402	66,338		
Traffic circle amenities	153,563	121,767	31,796	37,939		
Clock	60,917	57,465	3,452	5,889		
Garage	81,224	14,722	66,502	68,533		
Splash park	1,800,921	72,037	1,728,884	-		
	<u>6,324,918</u>	<u>1,928,039</u>	<u>4,396,879</u>	<u>2,714,670</u>		
Land	1,080,000	-	1,080,000	1,080,000		
Work in progress	-	-	-	1,608,476		
	<u>\$ 7,404,918</u>	<u>\$ 1,928,039</u>	<u>\$ 5,476,879</u>	<u>\$ 5,403,146</u>		

Land includes two sites occupied by the McKenzie Towne Hall and a private 1.4 acre park. The private park amenities are 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 related to the splash park project, which was completed during the year.

MCKENZIE TOWNE COUNCIL
Notes to the Financial Statements
May 31, 2019

3. INVESTMENTS

The Council holds three (2018 - two) GICs with ATB Financial. The GICs are non redeemable and bear interest at 2.30% maturing October 12, 2019, 2.63% maturing March 12, 2021, and 2.39% maturing April 22, 2021 respectively (2018 - 2.20% maturing March 12, 2019, and 2.63% maturing March 12, 2021). These investments have been classified as short-term or long-term based on their maturity dates. Included in the investment amounts is \$11,880 (2018 - \$nil) of accrued interest.

	2019		2018
Short-term investment	\$ 131,892	\$	141,214
Long-term investments	454,309		300,000
	<u>\$ 586,201</u>	\$	<u>441,214</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 (2018 - \$1,403,010) less accumulated amortization of \$716,871 (2018 - \$671,826). 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 (2018 - \$340,000) less accumulated amortization of \$13,600 (2018 - \$nil). The grant is recognized as revenue on the same basis as the amortization recognized on the related capital assets purchased with the grant funding.

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:

2020	\$	9,335
2021		9,450
2022		7,824
2023		788
	\$	<u>27,397</u>

6. DEMAND LOANS

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. As at year-end the Council had drawn \$96,555 (2018 - \$292,591) on the demand revolving loan.

The Council also has access to a business MasterCard to a maximum of \$20,000. The MasterCard bears interest at a fixed rate of 18.90% per annum and is payable on demand. As at year-end the Council had drawn \$3,157 (2018 - \$13,095) on the MasterCard, which is included in accounts payable and accrued liabilities.

The demand revolving loan and MasterCard are 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.

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, whereby the cash flows required to service the demand loan will fluctuate with changes in market rates. 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.

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.

This includes 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.