

Jagare Ridge Homeowners Association
Financial Statements
For the year ended December 31, 2018

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Operations and Net Deficiency	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 9



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
Jagare Ridge Homeowners Association

Opinion

We have audited the financial statements of Jagare Ridge Homeowners Association (the "Association"), which comprise the statement of financial position as at December 31, 2018, 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, 2018, 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.

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 2018 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.

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 (continued)

- 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 7, 2019

**Jagare Ridge Homeowners Association
Statement of Financial Position**

December 31, 2018

Assets

Current

Cash	\$ 39,495
Accounts receivable	<u>15,279</u>
	<hr/> \$ 54,774


Liabilities and Net Deficiency

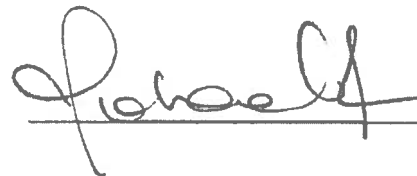
Current

Accounts payable and accrued liabilities (Note 4)	\$ 17,468
Government remittances payable	2,508
Deferred revenue	15,332
Note payable (Note 3)	<u>50,000</u>
	85,308

Unrestricted net deficiency	<u>(30,534)</u>
	<hr/> \$ 54,774

Approved on behalf of the board:


_____, Director


_____, Director

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

**Jagare Ridge Homeowners Association
Statement of Operations and Net Deficiency**

For the year ended December 31, 2018

Membership fee revenue	\$ 53,019
Expenditures	
Administration fees (Note 4)	20,000
Interest and bank charges	703
Office	8,033
Professional fees	9,680
Repairs and maintenance	38,101
Telephone and utilities	9,046
	<hr/> 85,563
Deficiency of revenue over expenditures before the following item	(32,544)
Other income	<hr/> 2,010
Deficiency of revenue over expenditures, being internally restricted net deficiency end of year	<hr/> \$ (30,534)

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

**Jagare Ridge Homeowners Association
Statement of Cash Flows**

For the year ended December 31, 2018

Cash flows from operating activities	
Deficiency of revenue over expenditures for the year	\$ (30,534)
Change in non-cash working capital items	
Accounts receivable	(15,279)
Accounts payable and accrued liabilities	17,468
Government remittances payable	2,508
Deferred revenue	<u>15,332</u>
	<u>(10,505)</u>
Cash flows from financing activity	
Advances from note payable	<u>50,000</u>
Increase in cash during the year, being cash end of year	<u>\$ 39,495</u>

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

Jagare Ridge Homeowners Association

Notes to the Financial Statements

December 31, 2018

1. Summary of significant accounting policies

Nature of operations	The Jagare Ridge Homeowners Association (the "Association") is a not-for-profit organization that owns and operates amenities for the use of its members, the residents of Jagare Ridge. The Association was incorporated as a not-for-profit organization on November 8, 2012 under the Canada Societies Act. As such, the Association is exempt from income tax under Section 149 of the Income Tax Act. As such, the Association has made no provisions for income taxes in these financial statements. 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 2018.
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	<p>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.</p> <p>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.</p>

Jagare Ridge Homeowners Association

Notes to the Financial Statements

December 31, 2018

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 2018 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. **Note payable**

During the year Melcor provided advanced funding of \$50,000 in exchange for a note payable by the Association. This loan is unsecured, non-interest bearing and is repayable on demand.

4. **Related party transactions**

The Management Agreement grants Melcor and Jagare Ridge Communities Inc. ("JRCl") 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 JRCl has sold its last lands within the Jagare Ridge development, or (ii) the date upon which all amounts owing to JRCl have been repaid. JRCl may, at an earlier date and at its 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 JRCl and will no longer receive their financial support.

During the year, the following related party transactions occurred:

a) Administration fees of \$20,000 were paid to Melcor, of which \$5,074 remains in accounts payable and accrued liabilities at year end

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.

Jagare Ridge Homeowners Association Notes to the Financial Statements

December 31, 2018

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 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 and note payable. This risk is mitigated by the Association having support from Melcor.
