

Condominium Corporation No.
0614475 - Gateway South Centre
Financial Statements
December 31, 2018



RSM Alberta LLP

777 8th Ave SW
Suite 1400
Calgary, AB T2P 3R5

O +1 403 298 1500
F +1 403 298 5814

www.rsmcanada.com

Independent Auditors' Report

To the Unit Owners of
Condominium Corporation No. 0614475 - Gateway South Centre

Opinion

We have audited the financial statements of Condominium Corporation No. 0614475 - Gateway South Centre (the "Corporation"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and change in operating fund, capital replacement reserve fund operations and change in capital replacement reserve fund 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 Corporation as at December 31, 2018, and its financial performance and its cash flows for the year ended December 31, 2018 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 Corporation 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 7 of the financial statements, which discloses the Corporation's financial covenant breach. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of Condominium Corporation No. 0614475 - Gateway South Centre for the year ended December 31, 2017 were audited by another firm of Chartered Professional Accountants who expressed an unmodified opinion on those financial statements on June 5, 2018.

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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 auditors' 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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Corporation 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.

RSM Alberta LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
March 26, 2019

Condominium Corporation No. 0614475 - Gateway South Centre

(Incorporated under the laws of Alberta)

Statement of Financial Position

December 31, 2018

	Operating Fund	Reserve Fund	2018	2017
Assets				
Current assets				
Cash and cash equivalents	\$ 200,552	\$ 179,820	\$ 380,372	\$ 2,749,168
Accounts receivable	64,994	-	64,994	50,800
Prepaid expenses	<u>34,442</u>	<u>-</u>	<u>34,442</u>	<u>21,102</u>
	299,988	179,820	479,808	2,821,070
Investments (note 4)	-	2,386,889	2,386,889	-
Geo-exchange equipment (note 5)	<u>2,831,422</u>	<u>-</u>	<u>2,831,422</u>	<u>3,003,022</u>
	<u>\$ 3,131,410</u>	<u>\$ 2,566,709</u>	<u>\$ 5,698,119</u>	<u>\$ 5,824,092</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	\$ 337,748	\$ -	\$ 337,748	\$ 149,401
Deposits payable	35,050	-	35,050	35,050
Demand loan (note 7)	<u>2,269,864</u>	<u>-</u>	<u>2,269,864</u>	<u>2,565,204</u>
	<u>2,642,662</u>	<u>-</u>	<u>2,642,662</u>	<u>2,749,655</u>
Net Assets				
Capital replacement reserve fund (note 9)	-	2,566,709	2,566,709	1,688,912
Invested in geo-exchange equipment (note 10)	561,558	-	561,558	437,818
Operating fund	<u>(72,810)</u>	<u>-</u>	<u>(72,810)</u>	<u>947,707</u>
	<u>488,748</u>	<u>2,566,709</u>	<u>3,055,457</u>	<u>3,074,437</u>
	<u>\$ 3,131,410</u>	<u>\$ 2,566,709</u>	<u>\$ 5,698,119</u>	<u>\$ 5,824,092</u>

Commitments (note 12)

Approved by the Board,

_____, Director

_____, Director

Condominium Corporation No. 0614475 - Gateway South Centre
Statement of Operations and Change in Operating Fund
Year Ended December 31, 2018

	2018	2018 Budget <i>(unaudited)</i>	2017
Revenue			
Condominium fees	\$ 2,957,346	\$ 2,960,604	\$ 2,958,266
Document and miscellaneous income	<u>44,879</u>	<u>-</u>	<u>25,467</u>
	<u>3,002,225</u>	<u>2,960,604</u>	<u>2,983,733</u>
Expenses			
Administration	102,602	418,500	38,746
Insurance	167,758	234,000	141,272
Utilities	823,076	779,000	698,714
Contracted services	393,538	390,524	213,347
Repairs and maintenance	561,815	382,900	684,742
Professional services	206,555	183,500	136,971
Wages and benefits	75,497	-	-
Goods and service tax	56,914	119,422	95,055
Reimbursable services	(1,116)	-	(1,157)
Interest	97,910	-	109,598
Amortization	<u>171,600</u>	<u>-</u>	<u>171,600</u>
	<u>2,656,149</u>	<u>2,507,846</u>	<u>2,288,888</u>
Excess of revenue over expenses	346,076	452,758	694,845
Operating fund, beginning of year	947,707	-	797,762
Transfer to capital replacement reserve fund	(1,242,853)	(452,758)	(432,848)
Change in investment in geo-exchange equipment (note 10)	<u>(123,740)</u>	<u>-</u>	<u>(112,052)</u>
Operating fund, end of year	<u>\$ (72,810)</u>	<u>\$ -</u>	<u>\$ 947,707</u>

Condominium Corporation No. 0614475 - Gateway South Centre
Statement of Capital Replacement Reserve Fund Operations and
Change in Capital Replacement Reserve Fund
Year Ended December 31, 2018
(unaudited)

	2018	2017
Revenue		
Interest	\$ <u>14,187</u>	\$ <u>7,265</u>
Expenses		
Bylaw updates and reserve fund study	19,062	-
Consulting	15,024	30,996
Parkade foundations	20,265	85,133
Plumbing and heating	77,774	31,354
Security Camera System	165,376	269,162
Solar remediation	-	7,680
Sprinkler system	12,493	-
Windows and doors	992	-
Unrealized loss on investment	<u>68,257</u>	<u>-</u>
	<u>379,243</u>	<u>424,325</u>
Deficiency of revenue over expenses	(365,056)	(417,060)
Capital replacement reserve fund, beginning of year	1,688,912	1,673,124
Transfer from operating fund per Board plan	452,758	432,848
Transfer of operating surplus to reserve fund	<u>790,095</u>	<u>-</u>
Capital replacement reserve fund, end of year	<u><u>\$ 2,566,709</u></u>	<u><u>\$ 1,688,912</u></u>

Condominium Corporation No. 0614475 - Gateway South Centre
Statement of Cash Flows
Year Ended December 31, 2018

	2018	2017
Cash provided by (used in):		
Operating activities		
Condominium fees	\$ 2,943,152	\$ 2,931,363
Operating expenses	(2,310,658)	(2,202,583)
Reserve expenses	(310,986)	(424,325)
Deposits refunded	-	(123,405)
Other revenue	45,995	26,624
Interest received	<u>14,187</u>	<u>7,265</u>
	<u>381,690</u>	<u>214,939</u>
Financing activity		
Demand loan payments	<u>(295,340)</u>	<u>(283,652)</u>
Investing activity		
Purchase of investments	<u>(2,455,146)</u>	<u>-</u>
Cash outflow	(2,368,796)	(68,713)
Cash, beginning of year	<u>2,749,168</u>	<u>2,817,881</u>
Cash, end of year	<u>\$ 380,372</u>	<u>\$ 2,749,168</u>
Cash is comprised of:		
Cash	\$ 200,552	\$ 840,252
Reserve fund cash	179,820	1,688,912
Mutual funds	<u>-</u>	<u>220,004</u>
	<u>\$ 380,372</u>	<u>\$ 2,749,168</u>
Non-cash transaction:		
Unrealized loss on investments	<u>\$ 68,257</u>	<u>\$ -</u>

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

1. Nature of operations

Condominium Corporation No. 0614475 - Gateway South Centre (the "Corporation") is a not-for-profit organization incorporated with the registration of the condominium plan. The Corporation enters into contracts on behalf of the owners of the five hundred residential units for the maintenance of common property and the provision of services to the unit owners.

These financial statements include only the operating assets; the common property of land and buildings is owned jointly by the unit owners and is not recorded in these financial statements.

The Corporation is required to file an income tax return; however, as a not-for-profit organization, it is not taxed and no provision for income tax has been made in these financial statements.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and include the following significant accounting policies:

(a) Fund accounting

Two separate funds are maintained:

(i) Operating fund

Condominium fees and operating expenses are recorded in the general operating fund. An annual transfer is made to the capital replacement reserve fund.

(ii) Capital replacement reserve fund

Major repairs to and replacements of common property that are expected to arise at intervals of longer than one year are recorded in this fund together with investment income earned on reserve asset balances. The balance of this fund is restricted and may only be used for major repairs and replacements.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments that are highly liquid and readily convertible to known amounts of cash and are subject to insignificant risk of change in value. Cash equivalents consist of mutual funds.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

(c) Investments

Investments include fixed income and equity investments and are measured at fair value.

(d) Geo-exchange equipment

The equipment is recorded at cost and is being amortized over 20 years using the straight-line method. The Corporation owns this equipment excluding common areas.

Geo-exchange equipment is evaluated for impairment when events or circumstances indicate impairment may have occurred. Any impairment is measured by comparing the carrying value of the assets to the fair value, based on the present value of future cash flows expected to be generated from the assets.

(e) Deposits payable

Deposits payable include amounts which were collected from unit owners as damage deposits. The remaining amount of deposits held are expected to be returned to the specified unit owners in the next fiscal year.

(f) Financial instruments

The Corporation initially measures its financial assets and liabilities at fair value.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost, except for equity investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in excess of revenue over expenditures.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable. The Corporation's financial assets measured at fair value include the equity investments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, deposits payable, and the demand loan.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write-down, if any, is recognized in excess of revenue over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost. The amount of the reversal is recognized in excess of revenue over expenses.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

The Corporation recognizes its transaction costs in excess of revenue over expenses in the period incurred for its equity investments and all other financial assets and liabilities subsequently measured at fair value.

(g) Revenue recognition

Condominium fees are due in equal monthly installments on the first day of each month and recorded as income on that day. Document and miscellaneous income is recognized when received and interest income is accrued monthly.

(h) Measurement uncertainty

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The valuation of geo-exchange equipment is based on management's best estimates of the future recoverability of this asset and the determination of costs subject to classification as geo-exchange equipment. The amount recorded for amortization of the geo-exchange equipment is based on management's best estimates of the remaining useful lives and period of future benefit of the asset.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(i) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(j) Contributed services

Volunteers carry out many activities for the Corporation. Due to the difficulty of determining their fair values, contributed services are not recognized in the financial statements except to the extent of honoraria totaling \$9,092 (2017 - \$8,100).

3. Cash and cash equivalents

Cash and cash equivalents include short-term investments of \$NIL (2017 - \$220,004).

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

4. Investments

	Cost 2018	Fair Value 2018	Cost 2017	Fair Value 2017
Fixed income	\$ 2,055,190	\$ 2,009,665	\$ -	\$ -
Equity	<u>399,956</u>	<u>377,224</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,455,146</u>	<u>\$ 2,386,889</u>	<u>\$ -</u>	<u>\$ -</u>

Investments include fixed income and equity investments, in accordance with the Condominium Property Act of Alberta, and are measured at fair value.

5. Geo-exchange equipment

	Cost	Accumulated Amortization	Net Book Value	
			2018	2017
Geo-exchange equipment	<u>\$ 3,432,022</u>	<u>\$ 600,600</u>	<u>\$ 2,831,422</u>	<u>\$ 3,003,022</u>

6. Government remittances

Accounts payable and accrued liabilities includes payroll remittances of \$3,183 (2017 - \$NIL).

7. Demand loan

	2018	2017
Demand loan	<u>\$ 2,269,864</u>	<u>\$ 2,565,204</u>

The demand loan is secured by a general security agreement over all assets of the Corporation, bearing interest at 4.03% and is repayable in blended monthly instalments of \$32,771. The loan matures July 10, 2020.

The demand loan is subject to a debt service coverage financial covenant of not less than 100%. The Corporation is in breach of the financial covenant at year-end and, accordingly; the debt is classified as a short-term liability. The bank has not indicated the actions it may take and management is working to rectify the covenant position subsequent to year-end.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

8. Capital disclosure

The Corporation defines capital as the sum of the capital replacement fund and its operating fund.

As required by legislation, the Corporation benchmarks its reserve fund levels against the reserve fund study. The balance of the operating fund is maintained at levels sufficient to withstand unexpected financial events in order to maintain stability.

9. Adequacy of the Capital Replacement Reserve Fund

These financial statements do not attempt to show the adequacy of the capital replacement reserve fund. Determining the annual allocation to the fund and the adequacy of the fund balance requires judgment in the following areas:

- Obtaining an inventory of common property components that will require replacement;
- Determining the state of these components and their expected remaining useful life;
- Estimating the replacement cost at the expected time of replacement; and
- Forecasting the expected rate of return on the fund's investments.

Significant estimates and assumptions are involved and actual results may differ. A capital replacement reserve fund study was completed in 2018. A new capital replacement reserve fund study is expected to occur in 2023.

Under the assumptions of the study conducted in 2018, a December 31, 2018 reserve fund balance of \$2,435,000 and a 2019 contribution of \$313,327 would provide adequate funding. The actual reserve fund balance on December 31, 2018 was \$2,566,709 and the budgeted 2019 contribution is \$313,327. In addition, the operating fund balance and the amount invested in geo-exchange equipments at December 31, 2018 was \$488,748.

10. Investment in geo-exchange equipment

Change in investment in geo-exchange equipment is comprised of the following:

	2018	2017
Principal and interest demand loan payments	\$ 295,340	\$ 283,652
Amortization of geo-exchange equipment	<u>(171,600)</u>	<u>(171,600)</u>
	<u>\$ 123,740</u>	<u>\$ 112,052</u>

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

11. Financial instruments

The Corporation is exposed to the following significant financial risks:

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation has limited interest rate risk as the fixed income investments and demand loan are set at fixed interest rates.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation has credit risk with respect to its cash and cash equivalents, and accounts receivable.

The Corporation mitigates its exposure to credit loss by placing its cash and cash equivalents with a major financial institution. Exposure to credit loss from accounts receivable is minimal as the charges are against unit owners.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's equity investments expose the Corporation to price risks as equity investments are subject to price changes in the open market.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation has liquidity risk with respect to its accounts payable and accrued liabilities, deposits payable, and demand loan.

Liquidity risk is managed by the Corporation by closely monitoring cash flow requirements by preparing annual budgets and by raising sufficient fees to pay its annual expenses and to make the required reserve fund contribution.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2018

12. Commitments

The Corporation is committed under contracts for the following services and amounts:

	Mechanical	Janitorial	Waste Management	Recycling
2019	\$ 111,151	\$ 22,500	\$ 73,034	\$ 20,280
2020	-	-	73,034	18,590
2021	<u>-</u>	<u>-</u>	<u>36,517</u>	<u>-</u>
	<u>\$ 111,151</u>	<u>\$ 22,500</u>	<u>\$ 182,585</u>	<u>\$ 38,870</u>

13. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.