

**Condominium Corporation No. 0614475 -
Gateway South Centre
Financial Statements
December 31, 2017**

Independent Auditors' Report

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

We have audited the accompanying financial statements of Condominium Corporation No. 0614475 - Gateway South Centre, which comprise the statement of financial position as at December 31, 2017, 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 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.

Auditors' 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 auditors' 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 Condominium Corporation No. 0614475 - Gateway South Centre 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.

Other Matter

The financial statements of Condominium Corporation No. 0614475 - Gateway South Centre for the year ended December 31, 2016 were audited by another auditor who expressed an unqualified opinion on those statements on August 23, 2017.



CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
June 5, 2018

Condominium Corporation No. 0614475 - Gateway South Centre

(Incorporated under the laws of Alberta)

Statement of Financial Position

December 31, 2017

	Operating Fund	Reserve Fund	2017	2016
Assets				
Current assets				
Cash and cash equivalents	\$ 1,060,256	\$ 1,688,912	\$ 2,749,168	\$ 2,817,881
Accounts receivable	50,800	-	50,800	23,897
Prepaid expenses	<u>21,102</u>	<u>-</u>	<u>21,102</u>	<u>22,912</u>
	1,132,158	1,688,912	2,821,070	2,864,690
Geo-exchange equipment (note 3)	<u>3,003,022</u>	<u>-</u>	<u>3,003,022</u>	<u>3,174,622</u>
	<u>\$ 4,135,180</u>	<u>\$ 1,688,912</u>	<u>\$ 5,824,092</u>	<u>\$ 6,039,312</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	\$ 149,401	\$ -	\$ 149,401	\$ 235,349
Deposits payable	35,050	-	35,050	158,455
Demand loan (note 4)	<u>2,565,204</u>	<u>-</u>	<u>2,565,204</u>	<u>2,848,856</u>
	<u>2,749,655</u>	<u>-</u>	<u>2,749,655</u>	<u>3,242,660</u>
Net Assets				
Capital replacement reserve fund (note 6)	-	1,688,912	1,688,912	1,673,124
Invested in geo-exchange equipment	437,818	-	437,818	325,766
Operating fund	<u>947,707</u>	<u>-</u>	<u>947,707</u>	<u>797,762</u>
	<u>1,385,525</u>	<u>1,688,912</u>	<u>3,074,437</u>	<u>2,796,652</u>
	<u>\$ 4,135,180</u>	<u>\$ 1,688,912</u>	<u>\$ 5,824,092</u>	<u>\$ 6,039,312</u>

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, 2017

	2017	2017 Budget (unaudited)	2016
Revenue			
Condominium fees	\$ 2,958,266	\$ 2,957,948	\$ 2,957,942
Other	<u>26,624</u>	<u>-</u>	<u>24,130</u>
	<u>2,984,890</u>	<u>2,957,948</u>	<u>2,982,072</u>
Expenses			
Administration			
Board honoraria	8,100	8,100	5,475
Goods and Services Tax	95,055	109,924	72,856
Insurance and appraisal	141,272	135,600	161,471
Interest on callable debt	109,598	396,000	121,124
Management fees	103,200	101,676	101,676
Office and bank charges	38,911	11,300	39,478
Professional fees	33,771	20,500	32,651
Amortization	<u>171,600</u>	<u>-</u>	<u>171,600</u>
	<u>701,507</u>	<u>783,100</u>	<u>706,331</u>
Operating			
Electricity	403,495	432,000	378,119
Elevator	47,149	57,280	53,312
Janitorial	96,596	99,004	98,097
Landscaping and snow removal	47,336	34,520	43,178
Natural gas	126,864	112,656	113,999
On-site manager	-	45,000	41,575
Telephone, cable and internet	22,422	25,500	23,514
Water and sewer	40,287	120,000	87,141
Waste removal and recycling	<u>105,646</u>	<u>101,750</u>	<u>107,029</u>
	<u>889,795</u>	<u>1,027,710</u>	<u>945,964</u>
Repairs and maintenance			
General	371,105	554,942	312,533
Plumbing and mechanical	<u>327,638</u>	<u>148,500</u>	<u>361,332</u>
	<u>698,743</u>	<u>703,442</u>	<u>673,865</u>
	<u>2,290,045</u>	<u>2,514,252</u>	<u>2,326,160</u>
Excess of revenue over expenses	694,845	443,696	655,912
Operating fund, beginning of year	797,762	-	658,576
Transfer to capital replacement reserve fund	(432,848)	(432,848)	(416,200)
Change in investment in geo-exchange equipment	<u>(112,052)</u>	<u>-</u>	<u>(100,526)</u>
Operating fund, end of year	<u>\$ 947,707</u>	<u>\$ 10,848</u>	<u>\$ 797,762</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, 2017
(unaudited)

	2017	2016
Revenue		
Interest	\$ <u>7,265</u>	\$ <u>2,789</u>
Expenses		
Concrete and sidewalks	85,133	91,169
Geo-thermal filtration system	15,178	10,394
Hot water tanks	16,176	51,991
Parkade leaks	30,996	70,381
Roof vents	-	22,208
Security fire safety	269,162	34,612
Solar remediation	7,680	-
Waterproofing ramp and stairs	<u>-</u>	<u>32,692</u>
	<u>424,325</u>	<u>313,447</u>
Deficiency of revenue over expenses	(417,060)	(310,658)
Capital replacement reserve fund, beginning of year	1,673,124	1,567,582
Transfer from operating fund	<u>432,848</u>	<u>416,200</u>
Capital replacement reserve fund, end of year	<u><u>\$ 1,688,912</u></u>	<u><u>\$ 1,673,124</u></u>

Condominium Corporation No. 0614475 - Gateway South Centre
Statement of Cash Flows
Year Ended December 31, 2017

	2017	2016
Cash provided by (used in):		
Operating activities		
Condominium fees	\$ 2,931,363	\$ 2,961,656
Operating expenses	(2,202,583)	(2,086,691)
Reserve expenses	(424,325)	(266,879)
Deposits refunded	(123,405)	(2,150)
Other revenue	26,624	24,130
Interest received	<u>7,265</u>	<u>2,789</u>
	<u>214,939</u>	<u>632,855</u>
Financing activity		
Demand loan payments	<u>(283,652)</u>	<u>(272,126)</u>
Cash inflow (outflow)	(68,713)	360,729
Cash, beginning of year	<u>2,817,881</u>	<u>2,457,152</u>
Cash, end of year	<u>\$ 2,749,168</u>	<u>\$ 2,817,881</u>
Cash is comprised of:		
Cash	\$ 840,252	\$ 880,293
Reserve fund cash	1,688,912	1,719,692
Mutual funds	<u>220,004</u>	<u>217,896</u>
	<u>\$ 2,749,168</u>	<u>\$ 2,817,881</u>

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2017

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.

(c) Geo-exchange equipment

The equipment is recorded at cost and is being amortized over 20 years using the straight-line method.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2017

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.

(d) 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.

(e) 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.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

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.

(f) Revenue recognition

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

(g) 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 related assets.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2017

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.

(h) 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.

(i) 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 \$8,100 (2016 - \$5,475).

3. Geo-exchange equipment

			Net Book Value	
	Cost	Accumulated Amortization	2017	2016
Geo-exchange equipment	\$ <u>3,432,022</u>	\$ <u>429,000</u>	\$ <u>3,003,022</u>	\$ <u>3,174,622</u>

4. Demand loan

	2017	2016
Demand loan	\$ <u>2,565,204</u>	\$ <u>2,848,856</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 not in breach of the financial covenant at year-end.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2017

Assuming renewal at similar terms and repayment of the loan is not demanded, the estimated principal payments due are as follows:

2018	\$ 295,270
2019	307,391
2020	320,010
2021	333,148
2022	346,824
Subsequent to 2022	<u>962,561</u>
	<u>\$ 2,565,204</u>

5. 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.

6. 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 2013. A new capital replacement reserve fund study is expected to occur in 2018.

Under the assumptions of the study conducted in 2013, a December 31, 2017 reserve fund balance of \$2,238,592 and a 2018 contribution of \$450,162 would provide adequate funding. The actual reserve fund balance on December 31, 2017 was \$1,688,912 and the budgeted 2018 contribution is \$450,162. In addition, the operating fund balance at December 31, 2017 was \$1,385,525.

Condominium Corporation No. 0614475 - Gateway South Centre
Notes to Financial Statements
December 31, 2017

7. 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 demand loan is set at a fixed interest rate.

(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) 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.

8. Commitments

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

	Mechanical	Janitorial	Waste Management	Recycling
2018	\$ 144,964	\$ 22,500	\$ 73,034	\$ 20,280
2019	111,151	-	73,034	20,280
2020	-	-	73,034	18,590
2021	-	-	36,517	-
	<u>\$ 256,115</u>	<u>\$ 22,500</u>	<u>\$ 255,619</u>	<u>\$ 59,150</u>

9. Comparative figures

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