

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION
Financial Statements
December 31, 2020

INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

To the Members of Carriage Hills Vacation Owners' Association

We were engaged to review the accompanying financial statements of Carriage Hills Vacation Owners' Association which comprise the statement of financial position as at December 31, 2020 and the statements of operations, changes in fund balances 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.

Practitioner's Responsibility for the Financial Statements

Our responsibility is to express a conclusion on the accompanying financial statements. Because of the matter described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

Basis for Disclaimer of Conclusion

Canadian standards for review engagements require independent practitioners to obtain written representations from those charged with governance stating that it has fulfilled its responsibility for the preparation and fair presentation of the financial statements, that it has provided the independent practitioner with all the relevant information and that all transactions have been recorded. If these written representations are not obtained then the independent practitioner is required to disclaim a conclusion on the financial statements. On January 5, 2021, those charged with governance of the Association for the year ending December 31, 2020 resigned as planned and turned control of the the Association over to a receiver under pre-approved court order and supervision. As those charged with governance have resigned on January 5, 2021, under the terms noted above, they have not made any representations with regard to the financial statements for the year ended December 31, 2020.

Disclaimer of Conclusion

Due to the significance of the matters described in the *Basis for Disclaimer of Conclusion* paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements. Accordingly, we do not express a conclusion on the financial statements.

Other Matter

We draw your attention to Note 2 in the financial statements which outlines that the financial statements were not prepared using the going concern basis.



December 10, 2021

Chartered Professional Accountants
Licensed Public Accountants

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Statement of Financial Position

As at December 31, 2020

(Unaudited)

	2020	2019
	\$	\$
ASSETS		
CURRENT		
Cash	227,124	6,924,888
Accounts receivable <i>(Note 3)</i>	2,230,028	2,715,967
Government remittances recoverable	49,099	38,771
Due from Carriage Ridge Owners' Association	253,624	56,291
Prepaid expenses	237,721	179,581
	<u>2,997,596</u>	<u>9,915,498</u>
REPLACEMENT FUND INVESTMENTS <i>(Note 5)</i>	<u>1,468,962</u>	<u>1,745,717</u>
	<u>4,466,558</u>	<u>11,661,215</u>
LIABILITIES AND FUND BALANCES		
CURRENT		
Accounts payable and accrued liabilities	452,420	902,972
Deferred revenue <i>(Note 6)</i>	-	9,915,511
Due to Carriage Hills Hospitality, Inc. <i>(Note 4)</i>	254,228	254,870
	<u>706,648</u>	<u>11,073,353</u>
FUND BALANCES		
Operating fund (deficit)	806,255	(787,823)
Replacement fund <i>(Note 7)</i>	2,953,655	1,375,685
	<u>3,759,910</u>	<u>587,862</u>
	<u>4,466,558</u>	<u>11,661,215</u>

APPROVED ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Statement of Operations

For the Year Ended December 31, 2020

(Unaudited)

	Operating Fund	Replacement Fund	Total	Total
	2020	2020	2020	2019
	\$	\$	\$	\$
REVENUES				
Maintenance fees <i>(Note 4)</i>	9,474,239	2,146,467	11,620,706	10,560,261
Late fees	411,930	-	411,930	420,881
Room rentals and bonus time <i>(Note 4)</i>	275,732	-	275,732	321,394
Interest and other	45,478	32,217	77,695	156,516
	<u>10,207,379</u>	<u>2,178,684</u>	<u>12,386,063</u>	<u>11,459,052</u>
EXPENSES				
Resort management <i>(Notes 4, 8)</i>	2,951,418	-	2,951,418	2,061,821
Housekeeping <i>(Note 8)</i>	1,294,286	-	1,294,286	1,709,965
Utilities	769,155	-	769,155	846,622
Doubtful accounts receivable	749,549	-	749,549	1,311,535
Maintenance <i>(Note 8)</i>	647,919	-	647,919	827,292
Property taxes	438,426	-	438,426	575,786
Guest services <i>(Note 8)</i>	338,784	-	338,784	406,724
Grounds maintenance	308,905	-	308,905	312,593
Activities <i>(Note 8)</i>	295,849	-	295,849	308,281
Laundry	190,031	-	190,031	197,345
Accounting <i>(Note 8)</i>	79,942	-	79,942	80,849
Telephone	74,959	-	74,959	72,418
Security <i>(Note 8)</i>	64,713	-	64,713	60,576
Capital improvements <i>(Note 7)</i>	-	600,714	600,714	6,097,122
	<u>8,203,936</u>	<u>600,714</u>	<u>8,804,650</u>	<u>14,868,929</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	<u>2,003,443</u>	<u>1,577,970</u>	<u>3,581,413</u>	<u>(3,409,877)</u>
OTHER EXPENSES (INCOME)				
Employee severance	529,679	-	529,679	-
Government assistance <i>(Note 9)</i>	(120,314)	-	(120,314)	-
	<u>409,365</u>	<u>-</u>	<u>409,365</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>1,594,078</u>	<u>1,577,970</u>	<u>3,172,048</u>	<u>(3,409,877)</u>

See accompanying notes

Powell Jones LLP - Chartered Professional Accountants

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Statement of Changes in Fund Balances

For the Year Ended December 31, 2020

(Unaudited)

	Operating Fund \$	Replacement Fund \$	2020 \$	2019 \$
FUND BALANCES - BEGINNING OF YEAR	(787,823)	1,375,685	587,862	3,997,739
Excess (deficiency) of revenues over expenses	<u>1,594,078</u>	<u>1,577,970</u>	<u>3,172,048</u>	<u>(3,409,877)</u>
FUND BALANCES - END OF YEAR	<u>806,255</u>	<u>2,953,655</u>	<u>3,759,910</u>	<u>587,862</u>

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Statement of Cash Flows

For the Year Ended December 31, 2020

(Unaudited)

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	3,172,048	(3,409,877)
Item not affecting cash:		
Amortization of property, plant and equipment	-	11,114
	<u>3,172,048</u>	<u>(3,398,763)</u>
Changes in non-cash working capital:		
Accounts receivable	485,939	(231,464)
Due to Carriage Hills Hospitality, Inc.	(642)	261,792
Prepaid expenses	(58,140)	218,401
Accounts payable and accrued liabilities	(450,551)	8,578
Deferred revenue	(9,915,512)	761,455
Due from Carriage Ridge Owners' Association	(197,333)	7,129
Government remittances recoverable	(10,328)	95,526
	<u>(10,146,567)</u>	<u>1,121,417</u>
Cash flow from operating activities	<u>(6,974,519)</u>	<u>(2,277,346)</u>
FINANCING ACTIVITY		
Repayment of obligations under capital lease	-	(12,515)
Cash flow from (used by) financing activity	<u>-</u>	<u>(12,515)</u>
DECREASE IN CASH FLOW	(6,974,519)	(2,289,861)
Cash - beginning of year	<u>8,670,605</u>	<u>10,960,466</u>
CASH - END OF YEAR	<u>1,696,086</u>	<u>8,670,605</u>
CASH CONSISTS OF:		
Cash	227,124	6,924,888
Replacement fund investments	1,468,962	1,745,717
	<u>1,696,086</u>	<u>8,670,605</u>

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

1. NATURE OF OPERATIONS

Carriage Hills Vacation Owners' Association ("Association") was incorporated on August 6, 1996 under the Ontario Corporations Act and is a not-for-profit organization that is exempt from taxes under the Income Tax Act. As described in Note 2, the Association ceased operations on January 6, 2021. Prior to this, the Association was responsible for the operation of the timeshare plan at Carriage Hills Resort located at 90 Highland Drive in Oro-Medonte, Ontario. The timeshare facility is a residential timeshare development developed by Carriage Hills Resort Corporation ("Developer"). The resort property contains 172 units, each divided into 51 unit week intervals ("intervals") for a total of 8,772 intervals. The Association also performed duties set forth in the by-laws and other program documents, including the Time Sharing Agreement of Carriage Hills Resort ("Time Sharing Agreement") dated June 30, 2000.

The members of the Association are the owners of the intervals. Prior to ceasing operations, the affairs of the Association were managed by a Board of Directors who were elected by the membership based on the by-laws of the Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Going concern

The Association ceased operations on January 6, 2021 and the financial statements have been prepared on a basis other than that of the going concern basis. The basis includes, where applicable, writing the Association's assets down to net realizable value. No provision has been made for the future costs of terminating the operations unless such costs were committed at the reporting date.

Resort property

Ownership of the real property and certain personal property assets are vested directly or indirectly in the interval owners, not in the Association. Accordingly, such property and assets are not reflected as assets in these financial statements. These financial statements do not include the Developer's interest in the Association, nor any of the related mortgages, liabilities or contingent liabilities.

Fund accounting

The Association follows the restricted fund method of accounting for maintenance fees.

The Operating fund accounts for the maintenance fees received from interval owners and the related common operating expenses.

The Replacement fund accounts for the restricted maintenance fees received from owners and major repairs or replacement costs incurred.

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CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Replacement fund

The Association, as required by the Time Sharing Agreement, has established a replacement fund for financing future major repairs and replacements of the commonly owned assets of the resort. The basis of establishing contributions to this replacement fund is explained in Note 7. Only major repairs and replacements of the common elements and costs of conducting a reserve fund study are charged directly to the Replacement Fund. Minor repairs and replacements are charged to repairs and maintenance in the Operating Fund.

The Association segregates monies accumulated for the purpose of financing future charges to the Replacement Fund in special accounts, for use only to finance such charges. Interest earned on these restricted funds is credited directly to the Replacement Fund.

Replacement fund investments

Replacement fund investments are recorded at cost plus accrued interest.

Revenue recognition

Maintenance fees are recognized as revenue monthly based on the budget distributed to interval owners each year. Maintenance fees billed in advance are recorded as deferred revenue. Late fees and financing charges on delinquent maintenance fees are recorded in the year when collected.

Room rental and bonus time revenue is recognized as revenue based on stay dates. Advance deposits for reservations in the future are recorded as deferred revenue until arrival.

Interest and other revenue are recognized as revenue in the related fund when earned.

Use of estimates

The preparation of the Association's financial statements, in accordance with Canadian accounting standards for not-for-profit organizations, requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. Significant items subject to such estimates and assumptions include the valuation of accounts receivable and the expected useful life of capital assets. Due to the inherent uncertainty involved with making such estimates, actual results could differ from those reported. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

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CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Measurement of Financial Instruments

The Association initially measures its financial assets and financial liabilities at fair value, adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Association subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable, due from related parties and reserve fund investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Contributed services

Directors and owners volunteer their time to assist in the Association's activities. While these services benefit the Association considerably, a reasonable estimate of their amount and fair value cannot be made; accordingly, these contributed services are not recognized in the financial statements.

Fund balance management

The Association manages its fund balances through annual budgets that accumulate amounts adequate for replacement fund requirements and day-to-day operations and by investment of funds in compliance with the requirements of the Time Sharing Agreement.

3. ACCOUNTS RECEIVABLE

	2020	2019
	\$	\$
Maintenance fees receivable	9,226,766	10,705,111
Late fees and financing charges receivable	8,334,445	4,983,914
Funds in transit from the billing agent	-	315,878
Other receivable	486,850	123,000
	<u>18,048,061</u>	<u>16,127,903</u>
Less:		
Provision for uncollectible maintenance fees	(7,483,588)	(8,428,022)
Provision for uncollectible late fees and financing charges	<u>(8,334,445)</u>	<u>(4,983,914)</u>
	<u>2,230,028</u>	<u>2,715,967</u>

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

4. RELATED PARTY TRANSACTIONS

Developer:

During fiscal year 2019 the Developer was billed for and has paid \$1,136,635 for 2020 maintenance fees for 893.5 intervals which has been included in maintenance fee revenue.

Carriage Hills Hospitality, Inc.:

The Association pays management fees to Carriage Hills Hospitality, Inc. ("Manager") under a management contract which is effective until January 6, 2021.

The Association receives rental income from the Manager as part of the rental program, which is managed by the Manager.

Bonus time fees are collected by the Manager on behalf of the Association and certain operating expenditures, primarily payroll, are paid by the Manager on behalf of the Association.

Carriage Ridge Owners' Association:

The Association receives monthly rent from Carriage Ridge Owners' Association, for the guest check-in space within the Clarence building located at Carriage Hills, in the amount of \$1,392 per month.

Certain operating expenditures are shared between the Carriage Ridge Owners' Association and the Association based on a shared use, expense and operating agreement.

Shell Vacations Club Canada, ULC:

Shell Vacations Club Canada, ULC, an entity under common control with the Developer, provides centralized reservation service to the Association.

Shell Holdings, Inc.:

Shell Holdings, Inc., an entity under common control with the Developer, provides accounting services to the Association.

	2020	2019
	\$	\$
Revenues for the year include:		
Room rentals - received from Manager	99,703	144,436
Bonus time revenue - received from Manager	176,029	176,957
Non occupancy rental - received from Carriage Ridge Owners' Association	16,704	9,744
	<u>292,436</u>	<u>331,137</u>

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CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

4. RELATED PARTY TRANSACTIONS (continued)

	2020	2019
	\$	\$
Expenditures for the year include:		
Management fees - paid to Manager	473,696	465,092
Insurance - paid to Manager	101,901	68,821
Financial services fees - paid to Manager	13,042	14,387
Central reservations - paid to Shell Vacations Club Canada, ULC	84,331	103,735
Accounting fees - paid to Shell Holdings Inc.	68,490	74,009
	<u>741,460</u>	<u>726,044</u>

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.

The amount due from Carriage Ridge Owners' Association is non-interest bearing and is due on demand.

The amount due from Carriage Hills Hospitality, Inc. is non-interest bearing, unsecured and is due on demand.

5. REPLACEMENT FUND INVESTMENTS

	2020	2019
	\$	\$
Guaranteed investment certificates	-	600,000
Cash	1,468,962	1,145,717
	<u>1,468,962</u>	<u>1,745,717</u>

Cash is held in a bank account with Scotiabank earning interest at the bank's prime rate less 2.00% per annum and in an investment savings account with RBC Dominion Securities Inc. earning interest at variable rates. Market value as at year-end approximates cost.

6. DEFERRED REVENUE

	2020	2019
	\$	\$
Maintenance fee revenue	-	11,620,707
Less:		
Provision for uncollectible fees	-	(1,705,196)
	<u>-</u>	<u>9,915,511</u>

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

7. REPLACEMENT FUND

Management has used the report of Armstrong Consulting, from November 2019 and such other information as was available to them to evaluate the adequacy of the replacement fund. That report proposed allocations of \$2,468,437 for 2020, interest earned of \$15,744, expenditures of \$1,392,322 and a year-end balance as at December 31, 2020 of \$1,881,647. Actual amounts were allocations of \$2,146,467, interest earned of \$32,217, expenditures of \$600,714 and a year-end balance of \$2,953,655. As of December 31, 2020, the operating fund owes the replacement fund \$1,484,692 (2019 - replacement fund owed operating fund \$75,466).

8. ALLOCATION OF EXPENDITURES

Costs are allocated based on an estimate of time and resources spent on each functional area. Costs have been allocated as follows:

	2020	2019
	\$	\$
<u>Salaries and benefits</u>		
Resort management	323,422	326,457
Housekeeping	1,008,415	1,304,739
Maintenance	471,606	583,057
Guest services	283,854	346,763
Activities	292,932	302,708
Accounting	78,999	78,694
Security	64,724	60,286
	<u>2,523,952</u>	<u>3,002,704</u>
<u>General and administrative costs</u>		
Resort management	41,787	72,159
Housekeeping	11,438	15,924
Maintenance	4,456	13,090
Guest services	11,565	21,023
Activities	8,647	17,889
	<u>77,893</u>	<u>140,085</u>

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

9. GOVERNMENT ASSISTANCE

In response to the COVID-19 pandemic the Government of Canada has committed to provide various forms of relief. The Company applied for the following relief provisions:

During the year, the Company applied for and received a wage subsidy in the amount of \$9,734 known as the Temporary Wage Subsidy, funded by the Government of Canada. The Temporary Wage Subsidy is a three-month program which allows eligible employers to reduce the amount of payroll deductions required to be remitted to the Canada Revenue Agency. For periods subsequent to June 19, 2020 the Temporary Wage Subsidy was replaced by the Canada Emergency Wage Subsidy (CEWS).

During the year, the Company applied and its application was accepted for a wage subsidy known as the Canada Emergency Wage Subsidy (CEWS), funded by the Government of Canada. Under the CEWS, the Company is entitled to receive a subsidy for employee's wages – up to a calculated, maximum amount per week. At the date of these financial statements, Government of Canada has committed to extend the CEWS until June 2021. As of December 31, 2020 the Company has received \$110,580 in assistance from the CEWS.

10. SUBSEQUENT EVENTS

Appointment of Receiver

On January 6, 2021, BDO Canada Limited was appointed as receiver of the Association and its property. The Association ceased to operate as of this date.

CARRIAGE HILLS VACATION OWNERS' ASSOCIATION

Notes to Financial Statements

For the Year Ended December 31, 2020

(Unaudited)

11. FINANCIAL INSTRUMENTS

The Association is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Association's risk exposure and concentration as of December 31, 2020.

(a) Credit risk

Cash and replacement fund investments are exposed to credit risk as the amounts on deposit exceed the federally insured limits. The Association minimizes its exposure by depositing cash and replacement fund investments at major Canadian financial institutions.

The Association must make estimates in respect of the allowance for doubtful accounts. The Association continually monitors the aging of its receivables. Current economic conditions, historical information and the reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts. The allowance for doubtful accounts is calculated on a specific identification basis.

(b) Liquidity risk

Liquidity risk is the risk that the Association will not be able to meet a demand for cash or fund its obligations as they come due. The Association meets its liquidity requirements by preparing and monitoring detailed budgets and holding assets that can be readily converted into cash.

(c) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Association is limited to its investment of cash and replacement fund investments in interest bearing accounts with Scotiabank and RBC, which earn interest at prevailing market rates.

Unless otherwise noted, it is management's opinion that the Association is not exposed to significant currency or other price risks arising from these financial instruments.
