

## AGM Financial Commentary

### First Slide

#### 2021 Association Fees Per Household – Total Budget \$1,565

Greetings everyone, so nice to be here with all of you. First off, I would like to share with you a pie chart which displays the breakdown of where your homeowner fees will be spent and allocated this year.

From the top of the chart and going clockwise, the expense items and percentages are shown in descending order from largest to smallest.

48% of your fees are spent under the first three expense categories for Waste removal, Landscaping and Repairs and Maintenance. We outsource and pay three maintenance contractors under separate service contracts. These include:

1. T&T Disposal Services for waste removal;
2. DIVCON Ltd. for landscaping and repairs and maintenance; and
3. PLNT Inc. for landscaping and snow removal.

14% of your fees are spent on Management consulting services, which is within the range of fees normally charged by professional property and asset management service companies, which charge between 10-15% of total revenues, depending upon the size of the community and its related operations.

10% of your fees go towards the cost of the Lakehouse operations and special events. This includes Wages and Benefits for Lakehouse service staff, and the Event program expenses.

9% of your fees goes towards the annual amortization expense of capital assets. This is a non-cash item, which represents the annual depreciation of capital expenditures spent in the current year and previous years in aggregate towards the purchase of fixed assets with a useful life of more than a year or two.

6% of your fees is used to pay for utilities at the Lakehouse and for the additional cost of water for topping up the lake each year.

6% of your fees is spent on Administration, including insurance, professional fees (i.e.- bookkeeping, audit, and legal fees), as well as office and miscellaneous expenses.

1% of your fees is spent on purchasing fish stock each year.

Finally, the remaining 6% represents an operating surplus, which is allocated for contingencies towards unexpected expenses and to add towards the Association's operating cash reserves, which will be drawn later to fund future expense items.

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**Statement of Operations – 2020 Actual Results in comparison to 2020 Budget and 2019 Previous Year Results**

You will see on the far right for each line items of the statement of revenues and expenses, a brief explanation of variances to the budget and previous year.

This statement is presented in a similar format as our external financial statement. I will not go into too much detail in explaining all variances, however I will highlight and explain the significant areas that I feel are most appropriate for this presentation.

In summary, total revenues of \$750K were \$13K less than budget and \$7K down from the previous year. This was mainly due to the COVID-19 pandemic where we had no event sponsorships nor Lakehouse facility rentals against a total budget of \$12K and prior year actual amount of \$14K.

As you already know, your 2020 Association fees (both operating and allocated to the restricted capital reserve) increase each year by the rate of inflation. We collected an additional \$10K in fees over the previous year, which was in line with the 2019 consumer price index for the Calgary region at +1.5%.

Further down, total expenses of \$553K were \$141K less than budget and \$105K down from the previous year.

Due to the COVID-19 pandemic restrictions, we had an overall reduction in expenses of \$34K to budget and \$31K to the previous year. We reduced staffing levels at the Lakehouse, cut back on Management consulting fees, and cancelled Events.

Waste removal of \$134K was \$15K under budget and was just slightly up from previous year. The budget had a contingency provision of \$15K.

Landscaping of \$86K was \$9K less than budget and \$11K down from previous year due to less bed maintenance and tree pruning performed over the summer.

Repairs and maintenance of \$66K was \$24K under budget and \$49K down from previous year due to less repairs to the irrigation system being deferred to 2021 and less building and equipment repairs required.

Administration of \$40K was down slightly to budget and up \$6K over previous year due mainly to increased insurance premiums.

Amortization of capital assets of \$36K was under budget by \$36K and declined from last year by \$16K due to the change in accounting policy for amortizing capital assets. As a side note:

Our external auditors approved our accounting policy change. In brief, we split out Land improvements previously reported under Park equipment and amortized Land improvements over 20 years rather than 5 years. We also changed the amortization rate for Park equipment from 5 years to 10 years. In the end, we now have a better matching of amortizing our capital assets more closely in line with their useful lives.

Utilities and lake water top-up of \$30K was \$21K under budget \$10K lower than previous year due to primarily to less water consumption with only one lake water top-up needed.

Overall, we finished the 2020 year with an Excess of revenues over expenses (i.e.- operating surplus) in the amount of \$197K, which was \$169K over budget and ahead of last year by \$98K. As a result, we increased our unrestricted operating funds by \$91K and increased our restricted capital reserve funds by \$94K year over year.

For the year ahead, we are in a healthy financial position for managing and ensuring that we have sufficient operating and capital funds available to support cash flow requirements as they arise going forward.

At this point of our presentation, we would like to respond to two questions, which were provided to the Board from individual homeowners. These were great questions!

**First question** – Given that we have excess revenues over expenses, will there be any tax issues with the Canadian Revenue Agency (CRA)?

The LAHPOA is a nonprofit organization, and as such do not pay income tax.

Although we do not pay income tax on any surplus, there is still a requirement to file an annual tax return with the CRA. This filing is Form T1044 and is completed and filed each year by our external auditors.

**Second question** – Is the LAHPOA losing ground on the time value of the invested cash reserves in comparison to inflation, what actions and other options are being considered to improve investment returns.

The LAHPOA invests surplus funds in a very prudent and effective manner using one-year GIC's and T-Bill savings accounts. Our investment objectives are to preserve capital and earn a reasonable investment rate of return relative to the low risk that we take to protect the value of invested funds against inflation.

Over the past three years, we have built up the restricted capital reserve fund close to our target range between \$275K-\$300K to ensure that we have capital funds saved sufficient to support cash flow requirements as they arise. Over this period, the interest earned on our restricted capital reserve fund averaged 1.8%, which met our investment objectives and stayed ahead of the average inflation rate of 1.4%.

Given the current threat of extreme low interest rates negatively affecting investment returns, the Board acknowledges that our current investment policy is more at risk today in outpacing inflation. We have recently actioned against this threat by opening another T-Bill savings account to invest on a short-term basis all excess "operating" funds, which will provide additional investment earnings for 2021.

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## **Statement of Operations – 3-year comparison of the 2021 Budget with 2020 and 2019 Actual Results**

Our assumption for the 2021 Budget is that the COVID-19 pandemic restrictions will be lifted in time for the normal startup of our summer season during the last week of June.

Total budget revenues of \$767K is planned up by \$17K over 2020, which is a marginal increase of 2.2% year over year.

Association fees are planned up by \$8K, in line with the 2020 year over year average increase in the consumer price index for the Calgary region of +1.2%.

Facility rentals, events, grants and sponsorship revenue are all planned up in aggregate by \$10K, which is back to normal operations.

Total budget expenses of \$717K is budgeted significantly higher by \$164K over 2020.

Given the “back to normal spending” from lifting of the pandemic restrictions, we have planned for an overall increase in expenses of \$25K over the 2020. Increases in Lakehouse staffing is the main contributor.

Landscaping of \$119K is planned up by \$33K over 2020. As per the life cycle plan, we have planned for additional spending to complete the restoration of garden beds throughout the community and for defining all the Heritage Isle tree wells.

Repairs and maintenance of \$109K is planned up by \$43K over 2020. Again, as per the life cycle plan, we have planned back for additional spending to complete all major repairs and upgrades to the irrigate system throughout the community. As a side note:

The irrigation system will be upgraded with digital controllers, which will maximize water savings, save time and labor, and build a stronger service level in accessing by smartphone or tablet, and increase the management capabilities to meet and exceed our goals to improve our landscaping.

Utilities and lake water top-up of \$48K is budgeted up by \$18K over 2020. We have planned for an increase in Corix water rates from \$0.36 to \$0.68 per cubic meter. It's important to note that we have not had an increase in water rates for quite a few years.

Overall, Excess of revenues over expenses (i.e.- operating surplus) is budgeted for \$50K. We have planned for an increase in unrestricted operating funds for any unexpected cash flow requirements that may arise.

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## **Restricted Capital Reserve Fund – 2020 Actual Results compared to 2020 Budget**

The restricted capital reserve fund increased by \$93K for the year, closing the year off with a cash reserve balance of \$303K.

Allocated funds from Homeowner Association fees was collected in accordance to the budget in the amount of \$125K.

Total capital expenditures of \$47K was spent from the reserve, which was well below our original budget. The Board decided early in the year to defer most of budgeted capital items to 2021, due to the COVID-19 pandemic.

The only two budgeted capital projects that we spent were the replacement of the Lake House roof shingles for \$20K and the replacement of the Upper Lake Pond fountain for \$7K.

In December, we were successful in obtaining a grant from the Dunbow Recreation Board in the amount of \$11K, which had not been originally budgeted for. We used the grant to purchase a Snowmobile, X- Country Ski Track Setter and snowmobile accessories.

Further smaller capital purchases were made during the year, including computer tablets for the Lake House operations at a cost of \$5K, and wooden benches and rubber mats for the ice rink at a cost of \$4K.

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### **Restricted Capital Reserve Fund – 2021 Budget**

The restricted capital reserve fund is budgeted to decline by \$17K to close off the 2021 year with a cash reserve balance of \$286K.

Allocated funds from Homeowner Association fees will rise to \$126K, an increase of 1.2% over the 2020 year, which is in line with the 2020 year over year increase in CPI for Calgary.

Total capital expenditures of \$146K is budgeted for the 2021 year.

Brought forward from 2020 deferrals, include the life cycle study capital projects of repaving the community pathways for the upper lake and north dock for \$50K, replacing the Lake House roof eavestroughs for \$5K and replacing the lake aeration system diffusers for \$5K.

New capital projects that are planned in accordance with the life cycle study include, replacing the Kubota tractor and accessories for \$45K, completing major repairs and upgrades to the irrigation system throughout the community for \$25K, completing the restoration of garden beds and tree wells for \$9K, rebuilding the lake air compressors that serve the aeration system diffusers for \$4K, and replacing community signage for \$3K.

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### **Restricted Capital Reserve Fund – Cash Flow Chart 2018-2032**

As a new resident moving here with my wife Catherine in the fall of 2018, we were happy to find out that the Owners Association for the Lake at Heritage Pointe had already created a capital reserve fund and had contracted with a professional engineer earlier to complete a lifecycle assessment report for our community, which would establish the probable cost and timing of the capital replacements and refurbishments of the buildings and other site amenities.

The Lifecycle study included cash flow scenarios that would establish the required annual contributions needed to the fund the reserve so that there would be sufficient funds for identified expenditures over the next 25 years. We have followed the recommendations of the report and in 2019 started contributing \$125K annually from the allocation of annual homeowner association fees and then adding to the reserve this standard amount plus an inflation factor each year thereafter.

Our long-term strategic plan and objective is to ensure that the reserve balance remains positive, and so that there are sufficient funds to cover all of the identified expenditures over the next 25 years and beyond.

The Board has created a lifecycle committee that reviews our capital spending regularly and updates a 5-year rolling forecast of cash flows each year with a detailed listing of capital projects which are prioritized and then timed out into the future to stay within the available reserve funds.

The cash flow chart being presented here covers a 15-year period, starting in 2018 to the end of 2032. The presentation reflects the past 3-year actual results together with the next 12-year forecast.

The chart shows the annual restricted reserve funding in orange bars, annual capital expenditures in purple line and annual closing balances in green line.

Over the next 13 years, we anticipate spending about \$1.7M in capital expenditures and depositing \$1.8M in Association fees plus interest revenue.

Our goal is to maintain a minimum balance ranging between \$275K-\$300K over the next 7 years and then gradually increasing the annual fund balance to \$450K by the year ending 2032. This will ensure that we have sufficient funds to cover future capital expenditures.

**Thank you all for taking the time with us today!**