HomeSpace Society

Financial Statements

March 31, 2019

RSM Alberta LLP

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Independent Auditor's Report

To the Board of Directors of HomeSpace Society

Opinion

We have audited the financial statements of HomeSpace Society (the "Society"), which comprise the statements of financial position as at March 31, 2019 and the statements of operations, changes in fund balances 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 Society as at March 31, 2019, and the 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 Society 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.

Other Matter

The financial statements of the Society for the year ended March 31, 2018 were audited by another firm of chartered professional accountants who expressed an unmodified opinion on those financial statements on June 21, 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.

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

Those charged with governance are responsible for overseeing the Society'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:

- 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 Society’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 Society’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 Society 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
June 19, 2019

HomeSpace Society
(Incorporated under the laws of Alberta)

Statement of Financial Position
March 31, 2019

	Operating	Capital	Total 2019	Total 2018
Assets				
Current assets				
Cash	$ 4,804,147	$ 8,185,906	$ 12,990,053	$ 18,475,944
Short-term investments (note 3)	2,500,000	6,500,000	9,000,000	-
Accounts receivable	150,283	797,124	947,407	307,544
Prepaid expenses	80,408	-	80,408	82,430
Deposits in trust for real estate acquisitions	-	100,000	100,000	-
	7,534,838	15,583,030	23,117,868	18,865,918
Property held for affordable housing (note 5)	-	74,851,347	74,851,347	69,404,086
Equipment (note 6)	7,761	-	7,761	4,681
	$ 7,542,599	$ 90,434,377	$ 97,976,976	$ 88,274,685
Liabilities				
Current liabilities				
Line of credit (note 7)	$ -	$ 1,100,000	$ 1,100,000	$ -
Accounts payable and accrued liabilities	528,745	1,435,791	1,964,536	1,708,205
Deferred contributions	75,090	-	75,090	112,891
Current portion of mortgages payable (note 7)	-	168,325	168,325	163,829
	603,835	2,704,116	3,307,951	1,984,925
Tenant deposits	224,338	-	224,338	176,478
Mortgages payable (note 7)	-	3,502,845	3,502,845	3,671,170
Loans payable (note 8)	-	133,750	133,750	178,508
	828,173	6,340,711	7,168,884	6,011,081
Fund Balances				
Internally restricted - net investment in equipment	7,761	-	7,761	4,681
Internally restricted - net investment in property held for affordable housing	-	84,093,666	84,093,666	76,222,882
Internally restricted - capital reserve fund for building maintenance	3,257,235	-	3,257,235	3,701,569
Unrestricted net assets	3,449,430	-	3,449,430	2,334,472
	6,714,426	84,093,666	90,808,092	82,263,604
	$ 7,542,599	$ 90,434,377	$ 97,976,976	$ 88,274,685

Commitments and contingencies (note 11)
Subsequent event (note 12)

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

Approved by the Board,

_______________________, Director

_______________________, Director

HomeSpace Society
Statement of Operations
Year Ended March 31, 2019

	Operating	Capital	Total 2019	Total 2018
Revenue				
Donations and grants	$ 1,122,174	$ 8,557,149	$ 9,679,323	$ 9,378,512
Rental revenue	3,989,255	-	3,989,255	3,576,808
Interest and investment income	144,484	251,826	396,310	159,848
Miscellaneous income	26,856	-	26,856	59,482
	5,282,769	8,808,975	14,091,744	13,174,650
Operating expenses				
Real property costs	2,189,093	11,145	2,200,238	2,069,896
Interest	-	100,226	100,226	107,106
Special events	40,711	-	40,711	18,137
	2,229,804	111,371	2,341,175	2,195,139
Administrative expenses				
Salaries	1,052,298	-	1,052,298	1,061,065
Office	223,951	501,593	725,544	695,276
Amortization	5,974	1,422,265	1,428,239	1,286,571
	1,282,223	1,923,858	3,206,081	3,042,912
	3,512,027	2,035,229	5,547,256	5,238,051
Excess of revenue over expenses before other income	1,770,742	6,773,746	8,544,488	7,936,599
Gain on disposal of affordable housing	-	-	-	7,753
Excess of revenue over expenses	$ 1,770,742	$ 6,773,746	$ 8,544,488	$ 7,944,352

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

HomeSpace Society
Statement of Changes in Fund Balances
Year Ended March 31, 2019

	Internally restricted - net investment in equipment	Internally restricted - net investment in property held for affordable housing	Internally restricted - capital reserve fund for building maintenance	Unrestricted	Total
Fund balances, March 31, 2017	**$ 5,304**	**$ 69,217,799**	**$ 3,585,319**	**$ 1,510,830**	**$ 74,319,252**
Excess (deficiency) of revenue over expenses	(4,507)	6,444,153	116,250	1,388,456	7,944,352
Equipment additions	3,884	-	-	(3,884)	-
Fund transfers	-	560,930	-	(560,930)	-
Fund balances, March 31, 2018	**4,681**	**76,222,882**	**3,701,569**	**2,334,472**	**82,263,604**
Excess (deficiency) of revenue over expenses	(5,974)	6,773,746	340,312	1,436,404	8,544,488
Equipment additions	9,054	-	-	(9,054)	-
Real property capital maintenance	-	784,646	(784,646)	-	-
Fund transfers	-	312,392	-	(312,392)	-
Fund balances March 31, 2019, end of year	**$ 7,761**	**$ 84,093,666**	**$ 3,257,235**	**$ 3,449,430**	**$ 90,808,092**

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

HomeSpace Society
Statement of Cash Flows
Year Ended March 31, 2019

	2019	2018
Cash provided by (used in):		
Operating activities		
Excess of revenue over expenses	$ 8,544,488	$ 7,944,352
Add (deduct) items not affecting cash		
Amortization	1,428,239	1,286,571
Gain on disposal of equipment	-	(7,753)
Forgiveness of loan payable (note 8)	(44,758)	(70,000)
	9,927,969	9,153,170
Changes in non-cash working capital	(371,451)	108,043
	9,556,518	9,261,213
Financing activities		
Repayments of mortgages	(163,829)	(158,472)
Repayments of loans payable	-	(174,757)
Advance from line of credit	1,100,000	-
	936,171	(333,229)
Investing activities		
Equipment additions	(9,054)	(3,884)
Property held for affordable housing additions	(6,969,526)	(6,307,555)
Proceeds on sale of property held for affordable housing	-	437,500
Purchase of short term investments	(9,000,000)	-
	(15,978,580)	(5,873,939)
Cash inflow (outflow)	(5,485,891)	3,054,045
Cash, beginning of year	18,475,944	15,421,899
Cash, end of year	$ 12,990,053	$ 18,475,944

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

1. Nature of operations

HomeSpace Society (the "Society") was incorporated under the *Alberta Societies Act* on June 19, 2003. The Society is a not-for-profit organization and a registered charity and is exempt from income taxes under the *Income Tax Act.* The Society's mission is to creatively apply expertise to increase and manage the number of affordable and specialized housing units in Calgary.

The Charitable Fundraising Regulation of Alberta applies to the Society and the Society has considered all required disclosures under Section 7(2) of the Act in preparing 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

The Society follows the restricted fund method for accounting for contributions, as this is the preferred method for the users of the Society's financial statements.

The Operating Fund comprises of the amounts internally restricted as an investment in equipment, the capital reserve fund for building maintenance and the unrestricted net assets, is an unrestricted fund that contains the assets, liabilities, revenue and expenses related to the Society's operating activities, the operation of affordable housing and special events.

The Capital Fund comprises of the amounts internally restricted as an investment in property held for affordable housing, is a restricted fund that contains the assets, liabilities, revenue and expenses related to the Society’s acquisition and development of real estate property for affordable housing.

(b) Revenue recognition

Restricted contributions related to a restricted fund are recognized as revenue of the appropriate restricted fund when received or when future receipt of cash is guaranteed by a funding agreement. Restricted contributions to the Operating Fund are deferred and amortized to revenue when the related expenditures are incurred. Unrestricted contributions in the Operating Fund and contributions in the Capital Fund are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue in the Operating fund.

Rental revenue (which includes subsidies) related to the provision of affordable housing is recognized when a tenant commences occupancy of a rental suite and rent is due, or when rent is subsidized by a particular agency as per the agreement terms.

(c) Property held for affordable housing

The Society acquires and constructs real estate properties that are to be used as affordable housing in current and future years. These properties are held as ongoing investments in affordable housing and are stated at cost less accumulated amortization. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. Major capital improvements and replacements are capitalized and amortized over the term appropriate to the expenditure.

The purchase price of assets held for affordable housing is allocated to land and building less any forgivable loans granted once all conditions are met. Contributed land is recorded at fair value at the date of contribution.

Buildings included in assets held for affordable housing are amortized over the estimated life of 40 years on a straight-line basis. The assets are amortized once complete and occupied at one-half the normal rate in the first year.

Assets held for affordable housing are evaluated for impairment when events or circumstances indicate its carrying value may not be recoverable. 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 by the assets.

(d) Amortization

Purchased equipment is recorded at cost and amortized over the estimated useful life on a straight-line basis as follows:

Computer equipment	2 years

In the year of acquisition, the assets are amortized at one-half of the normal rate.

Equipment is evaluated for impairment when events or circumstances indicate its carrying value may not be recoverable. 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) Measurement uncertainty

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 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.

The valuation of property held for affordable housing is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as property held for affordable housing. The amounts recorded for amortization of the property held for affordable housing are based on management's best estimates of the remaining useful lives and period of future benefit of the related assets.

Amounts accrued as receivable pursuant to various funding contracts associated with Society’s programs are based on management’s best estimates of the amounts to be received for the periods in question upon the actual finalization of the associated claims and/or contract processes.

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.

(f) Financial instruments

The Society initially measures its financial assets and liabilities at fair value, except for certain non-arm’s length transactions that are measured at the exchange amount.

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

Financial assets measured at amortized cost include cash, short-term investments and accounts receivable.

Financial liabilities measured at amortized cost include the line of credit, accounts payable and accrued liabilities, tenant deposits, mortgages payable and loans payable.

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 expenditures. 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 expenditures.

The Society recognizes its transaction costs in excess of revenue over expenditures in the period incurred for its equity investments and all other financial assets and liabilities subsequently measured at fair value. Financial instruments, that are subsequently measured at cost or amortized cost, are adjusted by the transaction costs and financing fees that are directly attributable to their origination, issuance or assumption. Long-term debt is also reduced by financing fees and any debt premiums or discounts. The Society uses the effective interest method to amortize these adjustments to long-term debt.

(g) Contributed goods and services

Donations of materials and services are recognized when the fair value can be reasonably estimated and the materials and services are used in the normal course of operations. Donations of legal services related to the acquisition of real estate provided on a pro-bono basis are not recorded as the amounts cannot be reasonably estimated.

3. Short-term investments

Short-term investments consist of guaranteed investment certificates, bearing interest between 1.95% and 2.70% per annum and maturing between May 1, 2019 to July 18, 2019. Funds are not automatically re-invested at maturity and are added to cash for use in operations.

4. Affordable housing net assets

On September 30, 2016, the Society received property held for affordable housing and the associated cash, receivables, payables, mortgages, loans, deposits, tenant and grant agreements from the Calgary Homeless Foundation (the “Foundation”) a separately registered charity with its own Board of Directors, management and office. The Society focuses on housing solutions for ending homelessness, while the Foundation continues its leadership role within Calgary’s Plan to End Homelessness, serving as the system planner for Calgary’s homeless-serving system of care. The Foundation remains one of the nine participating agencies in the RESOLVE campaign to fundraise capital for affordable housing. On September 30, 2016, the Foundation and the Society entered into agreements assigning the funds raised for the Foundation through the RESOLVE campaign to the Society (the “benefits”). The agreements specify that the Society is the registered owner and trustee of the properties for which RESOLVE is fundraising (the “RESOLVE assets”). In return for transferring the benefits and the RESOLVE assets, the Foundation is the beneficial owner of the RESOLVE assets with a net book value of $60.4 million (2018 - $53.3 million). The beneficial ownership of the RESOLVE assets will not transfer to the Society until the last pledge is received and the obligations of the RESOLVE campaign and the associated gift agreements have expired or terminated.

As a result of the Foundation’s beneficial ownership of the RESOLVE assets:

(a) The Foundation guarantees the Society’s mortgages on the RESOLVE assets totaling $3.7 million, with maturity dates ranging from June 1, 2022 to June 1, 2023, a current portion of $168,325, interest rates ranging from 2.54% to 3.15%, secured by assets with a net book value of $15.2 million.

(b) The Foundation guarantees the Society’s $5 million evergreen line of credit facility to finance land purchases, bearing interest at 3.48%, of which $1,100,000 has been drawn as of March 31, 2019.

5. Property held for affordable housing

			Net Book Value	
	Cost	**Accumulated Amortization**	**2019**	**2018**
Land	$ 20,813,643	$ -	$ 20,813,643	$ 20,813,643
Buildings under construction	3,526,490	-	3,526,490	1,291,608
Buildings used for affordable housing	59,216,885	8,705,671	50,511,214	47,298,835
	$ 83,557,018	$ 8,705,671	$ 74,851,347	$ 69,404,086

6. Equipment

	Cost	Accumulated Amortization	Net Book Value 2019	Net Book Value 2018
Computer equipment	$ 20,010	$ 12,249	$ 7,761	$ 4,681

7. Mortgages payable

	2019	2018
Mortgage payable for the Bowness (Longbow) property bearing interest at a rate of 2.59% per annum, payable in monthly principal and interest instalments totalling $4,218, maturing December 2022 and secured by the Bowness property having a carrying value of $2,770,092.	$ 696,235	$ 728,466
Mortgage payable for the Capitol Hill (Francis) property bearing interest at a rate of 3.15% (2018 - 3.25%) per annum, payable in monthly principal and interest instalments totalling $4,615 (2018 - $4,652), maturing in June 2023 and secured by the Capitol Hill property having a carrying value of $3,043,583.	732,108	763,983
Mortgage payable for the Bankview property bearing interest at a rate of 2.54% per annum, payable in monthly principal and interest instalments totalling $5,120, maturing in June 2022 and secured by the Bankview property having a carrying value of $3,693,462.	871,589	910,477
Mortgage payable for the Crescent Heights property bearing interest at a rate of 2.54% per annum, payable in monthly principal and interest instalments totalling $2,168, maturing in June 2022 and secured by the Crescent Heights property having a carrying value of $1,470,756.	366,209	382,741
Mortgage payable for the Lower Mount Royal (Croydon) property bearing interest at a rate of 2.59% per annum, payable in monthly principal and interest instalments totalling $2,518, maturing in December 2022 and secured by the Lower Mount Royal property having a carrying value of $2,035,133.	433,241	452,032

	2019	**2018**
Mortgage payable for the Thorncliffe property bearing interest at a rate of 2.54% per annum, payable in monthly principal and interest instalments totalling $3,359, maturing in June 2022, and secured by the Thorncliffe property having a carrying value of $2,224,413.	571,788	597,300
	3,671,170	3,834,999
Less: Portion due within one year	168,325	163,829
	$ 3,502,845	$ 3,671,170

The estimated principal payments due are as follows:

2020	$ 168,325
2021	172,847
2022	177,330
2023	181,726
2024	186,650
Subsequent to 2024	2,784,292
	$ 3,671,170

Total interest paid on mortgages payable during the year was $100,226.

All of the mortgages payable are guaranteed by the Foundation .

The Society has available a line of credit in the amount of $5 million with a major Canadian financial institution to finance land purchases for various properties in Calgary. The line of credit bears interest at 3.48% per annum. At March 31, 2019, $1,100,000 (2018 - $NIL) had been drawn on the line of credit.

8. Loans payable

The loans are payable to Canadian Mortgage and Housing Corporation (CMHC). The Sunalta loan is an unsecured, non-interest bearing loan granted for the purpose of developing affordable housing which was expended on the Sunalta Lodging House. This loan is forgivable over 11 years maturing January 1, 2022. The Kootenay Lodge loan is a non-interest bearing loan granted for the purpose of developing affordable housing. This loan is forgivable over 15 years maturing December 1, 2022. The loans are unsecured, non-interest bearing and are to be repaid out of the project's capital financing.

	2019	2018
Sunalta Lodging House	$ 93,750	$ 127,841
Kootenay Lodge	40,000	50,667
	$ 133,750	$ 178,508

9. Financial instruments

The Society is exposed to the following significant financial risks:

(a) 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 Society does not have a concentration of credit exposure with any one party. The Society does not consider itself exposed to undue credit risk.

The Society is exposed to credit risk relating to cash. The risk is mitigated as cash is deposited with major Canadian financial institutions.

The Society is exposed to credit risk relating to accounts receivable, which is influenced by the individual characteristics of each customer. The majority of the accounts receivable are from donors and government agencies. The Society limits its exposure to credit risks by dealing with only credit worthy organizations. Management does not expect any debtors to fail in meeting their obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations associated with financial liabilities. The Society manages its liquidity risk through cash and debt management.

(c) 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 Society is exposed to interest rate risk to the extent of any upward revision in prime lending rates. The Society attempts to mitigate this risk by limiting the debt assumed and entering into medium-term mortgages.

(d) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Society is subject to price risk in the value of donated shares on the date of sale compared to the date of donation. The Society mitigates this risk by selling all shares upon release to the Society in an effort to ensure that price on date of sale does not materially differ from the price on transfer.

10. Statutory disclosures

As required under Section 7(2) of the Charitable Fundraising Regulation of Alberta, the Society is required to disclose amounts paid as remuneration to employees whose principal duties involve fundraising and direct costs incurred for the purposes of soliciting contributions. No such fundraising activities took place during the year ended March 31, 2019.

11. Commitments and contingencies

The Foundation entered into a lease agreement on May 14, 2015 for $1 with the Government of Alberta for premises which expires on March 31, 2020. The fair value of the donated rent during 2019 was not considered material to the users of the financial statements.

As part of a $4.1 million funding agreement effective November 1, 2011 with Persons with Developmental Disabilities Calgary Region Community Board ("PDD"), the Society is required to maintain ownership and control of each of the housing units referenced in the agreement for a period of 20 to 30 years. If the Society transfers ownership of these properties before this time PDD may require a repayment of a portion of the total proceeds that declines as the length of ownership increases.

12. Subsequent event

Subsequent to year end, a fire occurred at the Providence House building. Management anticipates that the total damages will amount to $200,000. It is management's opinion that the contents and general liability insurance policy will cover all of the damage costs less the deductible amount of $1,000.