HomeSpace Society

Financial Statements

March 31, 2018

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Independent Auditors' Report

To the Directors
HomeSpace Society

We have audited the accompanying financial statements of HomeSpace Society, which comprise the statement of financial position as at March 31, 2018, 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.

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 HomeSpace Society as at March 31, 2018, 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.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
June 21, 2018

HomeSpace Society

(Incorporated under the laws of Alberta)

Statement of Financial Position

March 31, 2018

	Operating	Capital	Total 2018	Total 2017
Assets				
Current assets				
Cash	$ 6,588,092	$ 11,887,852	$ 18,475,944	$ 15,421,899
Accounts receivable (note 8)	55,070	252,474	307,544	593,948
Prepaid expenses	82,430	-	82,430	67,538
Deposits in trust for real estate acquisitions	-	-	-	37,500
	6,725,592	12,140,326	18,865,918	16,120,885
Property held for affordable housing (note 4)	-	69,404,086	69,404,086	64,808,342
Property and equipment (note 5)	4,681	-	4,681	5,304
	$ 6,730,273	$ 81,544,412	$ 88,274,685	$ 80,934,531
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 8)	$ 400,182	$ 1,308,023	$ 1,708,205	$ 1,935,856
Deferred contributions	112,891	-	112,891	112,891
Current portion of mortgages payable (notes 6 and 8)	-	163,829	163,829	1,337,082
Current portion of loans payable (note 7)	-	-	-	130,000
	513,073	1,471,852	1,984,925	3,515,829
Tenant deposits	176,478	-	176,478	149,796
Mortgages payable (notes 6 and 8)	-	3,671,170	3,671,170	2,656,389
Loans payable (note 7)	-	178,508	178,508	293,265
	689,551	5,321,530	6,011,081	6,615,279
Fund Balances				
Internally restricted - net investment in property and equipment	4,681	-	4,681	5,304
Internally restricted - net investment in property held for affordable housing	-	76,222,882	76,222,882	69,217,799
Internally restricted - capital reserve fund for building maintenance	3,701,569	-	3,701,569	3,585,319
Unrestricted net assets	2,334,472	-	2,334,472	1,510,830
	6,040,722	76,222,882	82,263,604	74,319,252
	$ 6,730,273	$ 81,544,412	$ 88,274,685	$ 80,934,531

Commitments and contingencies (note 9)
Subsequent event (note 6)

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

HomeSpace Society
Statement of Operations
Year Ended March 31, 2018

	Operating	Capital	Total 2018	Total 2017
Revenue				
Donations and grants	$ 1,015,322	$ 8,363,190	$ 9,378,512	$ 5,332,510
Rental revenue	3,576,808	-	3,576,808	1,836,568
Interest and investment income	63,983	95,865	159,848	26,057
Miscellaneous income	59,482	-	59,482	-
	4,715,595	8,459,055	13,174,650	7,195,135
Operating expenses				
Real property costs	1,916,575	153,321	2,069,896	608,624
Interest	-	107,106	107,106	50,799
Special events	18,137	-	18,137	5,994
	1,934,712	260,427	2,195,139	665,417
Administrative expenses				
Salaries	1,061,065	-	1,061,065	532,193
Office	215,112	480,164	695,276	359,222
Amortization	4,507	1,282,064	1,286,571	558,432
	1,280,684	1,762,228	3,042,912	1,449,847
	3,215,396	2,022,655	5,238,051	2,115,264
Excess of revenue over expenses before other income	1,500,199	6,436,400	7,936,599	5,079,871
Other income				
Gain on disposal of affordable housing	-	7,753	7,753	-
Conveyance of affordable housing net assets	-	-	-	64,761,376
	-	7,753	7,753	64,761,376
Excess of revenue over expenses	$ 1,500,199	$ 6,444,153	$ 7,944,352	$ 69,841,247

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

HomeSpace Society
Statement of Changes in Fund Balances
Year Ended March 31, 2018

	Internally restricted - net investment in property and 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, 2016	**$ -**	**$ 4,268,083**	**$ -**	**$ 209,922**	**$ 4,478,005**
Excess (deficiency) of revenue over expenses	(1,768)	4,123,749	-	957,890	5,079,871
Conveyance of affordable housing net assets	-	57,372,664	3,585,319	3,803,393	64,761,376
Property and equipment additions	7,072	-	-	(7,072)	-
Property held for affordable housing additions	-	3,453,303	-	(3,453,303)	-
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
Property and equipment additions	3,884	-	-	(3,884)	-
Fund transfers	-	560,930	-	(560,930)	-
Fund balances March 31, 2018, end of year	**$ 4,681**	**$ 76,222,882**	**$ 3,701,569**	**$ 2,334,472**	**$ 82,263,604**

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

HomeSpace Society
Statement of Cash Flows
Year Ended March 31, 2018

	2018	2017
Cash provided by (used in):		
Operating activities		
Excess of revenue over expenses	$ 7,944,352	$ 69,841,247
Add (deduct) items not affecting cash		
Amortization	1,286,571	558,432
Gain on disposal of property and equipment	(7,753)	-
Forgiveness of loan payable (note 7)	(70,000)	(44,758)
Conveyance of affordable housing net assets	-	(51,757,884)
	9,153,170	18,597,037
Changes in non-cash working capital	108,043	(268,892)
	9,261,213	18,328,145
Financing activities		
Repayments of mortgages	(158,472)	(140,517)
Proceeds from loans payable	-	133,115
Repayments of loans payable	(174,757)	(130,000)
	(333,229)	(137,402)
Investing activities		
Property and equipment additions	(3,884)	(7,072)
Property held for affordable housing additions	(6,307,555)	(3,453,303)
Proceeds on sale of property held for affordable housing	437,500	-
	(5,873,939)	(3,460,375)
Cash inflow	3,054,045	14,730,368
Cash, beginning of year	15,421,899	691,531
Cash, end of year	$ 18,475,944	$ 15,421,899

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 of the users of the Society's financial statements.

The Operating Fund 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 is a restricted fund that contains the assets, liabilities, revenue and expenses related to the Society's acquisition 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 related to the provision of affordable housing is recognized when earned.

(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 property and equipment are recorded at cost and are 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.

Property and 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, accounts receivable and deposits in trust for real estate acquisitions.

Financial liabilities measured at amortized cost include the 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. Conveyance of 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. In the prior year, the gift from the Foundation resulted in revenue of $64.8 million consisting of the following:

Cash	$ 13,003,492
Net working capital	(1,745,280)
Property held for affordable housing	58,135,060
Mortgages and loan	(4,631,896)
	$ 64,761,376

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 $53.3 million (2017 - $49.6 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.

4. Property held for affordable housing

			Net Book Value	
	Cost	**Accumulated Amortization**	**2018**	**2017**
Land	$ 20,813,643	$ -	$ 20,813,643	$ 19,080,273
Building	55,873,848	7,283,405	48,590,443	45,728,069
	$ 76,687,491	$ 7,283,405	$ 69,404,086	$ 64,808,342

5. Property and equipment

	Cost	Accumulated Amortization	Net Book Value 2018	Net Book Value 2017
Computer equipment	$ 10,956	$ 6,275	$ 4,681	$ 5,304

6. Mortgages payable

	2018	2017
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 in fiscal 2023 and secured by the Bowness property having a carrying value of $2,775,829.	$ 728,466	$ 759,485
Mortgage payable for the Capitol Hill (Francis) property bearing interest at a rate of 3.25% per annum, payable in monthly principal and interest instalments totalling $4,652, maturing in fiscal 2019 and secured by the Capitol Hill property having a carrying value of $3,101,137.	763,983	794,610
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 fiscal 2023 and secured by the Bankview property having a carrying value of $3,653,112.	910,477	948,396
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 fiscal 2023 and secured by the Crescent Heights property having a carrying value of $1,503,297.	382,741	398,862
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 fiscal 2023 and secured by the Lower Mount Royal property having a carrying value of $2,069,328.	452,032	469,944

	2018	**2017**
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 fiscal 2023, and secured by the Thorncliffe property having a carrying value of $2,196,666.	597,300	622,174
	3,834,999	3,993,471
Less: Portion due within one year	163,829	1,337,082
	$ 3,671,170	$ 2,656,389

Subsequent to year-end, the mortgage for the Capitol Hill (Francis) property was renewed, bearing interest at a rate of 3.15% per annum, payable in monthly principal and interest instalments totaling $4,615, maturing fiscal 2024 and secured by the Capitol Hill property.

The estimated principal payments due are as follows:

2019	$ 163,829
2020	168,325
2021	172,822
2022	177,479
2023	2,558,601
Subsequent to 2023	593,943
	$ 3,834,999

Total interest paid on mortgages payable during the year was $107,106.

All of the mortgages payable are guaranteed by the Foundation (note 8).

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 2.06% per annum subject to change on the date of the advance. At March 31, 2018, $NIL (2017 - $NIL) had been drawn on the line of credit.

7. 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. 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. Funds for the development of Prelude and South Calgary properties were repaid during the year, net of the amount forgiven by CMHC. The loans are unsecured, non-interest bearing and are to be repaid out of the project's capital financing.

	2018	**2017**
Sunalta Lodging House	$ 127,841	$ 161,932
Kootenay Lodge	50,667	61,333
Prelude and South Calgary	-	200,000
	178,508	423,265
Less: Portion due within one year	-	(130,000)
	$ 178,508	$ 293,265

8. Related party transactions

The Foundation guarantees certain liabilities of the Society and is the beneficial owner of certain assets of the Society (note 3).

As a result of the Foundation’s beneficial ownership of the RESOLVE assets (note 3):

(a) The Foundation guarantees the Society’s mortgages on the RESOLVE assets totaling $3.8 million, with maturity dates ranging from May 1, 2018 to December 1, 2022, a current portion of $163,829, interest rates ranging from 2.54% to 3.25%, secured by assets with a net book value of $15.3 million.

(b) The Foundation guarantees the Society’s $5 million evergreen line of credit facility to finance land purchases, bearing interest at 2.06%, of which $NIL has been drawn as of March 31, 2018.

Accounts receivable includes $NIL (2017 - $58,711) from the Foundation related to amounts paid by the Society on the Foundation’s behalf and accounts payable and accrued liabilities includes $795 (2017 - $NIL) due to the Foundation. Amounts are non-interest bearing and payable on demand.

9. 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 2018 was not considered material to the users of the financial statements.

As part of a $4.1 million funding agreement 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.

10. 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. 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.

11. 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, 2018.

12. Comparative figures

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