

Financial Statements of

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

And Independent Auditors' Report Thereon

Year ended June 30, 2021



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Directors of Union Gospel (Heatley) Housing Society

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Union Gospel (Heatley) Housing Society (the "Society"), which comprise:

- the statement of financial position as at June 30, 2021
- the statement of revenue and expenses for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements as at and for the year ended June 30, 2021 of the Society are prepared, in all material respects, in accordance with the financial reporting provisions of sections 5.11 and 5.12 of the operating agreements for Hastings Street and Maurice McElrea Place (collectively the "Agreements") between the Society and British Columbia Housing Management Commission ("BCHMC").

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' 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.



Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2 in the financial statements, which describes the applicable financial reporting framework and the purpose of the financial statements.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of sections 5.11 and 5.12 of the Agreements between the Society and BCHMC; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the financial statements in the circumstances, 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.

Auditors' 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 auditors' 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 the 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 auditors' 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 auditors' report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- 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.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with the financial reporting provisions of the Agreements between the Society and BCHMC have been applied on a basis consistent with that of the preceding period.

Chartered Professional Accountants

Vancouver, Canada
October 21, 2021

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Financial Position

June 30, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 360,607	\$ 466,039
Accounts receivable and accrued receivables	14,744	8,799
Due from related parties (note 8)	11,845	-
Prepaid expense	18,351	13,806
	<u>405,547</u>	<u>488,644</u>
Capital assets (note 4)	2,466,112	2,595,571
Prepaid land lease (note 5)	592,968	607,343
Restricted cash (note 6)	1,356,747	1,283,681
	<u>\$ 4,821,374</u>	<u>\$ 4,975,239</u>

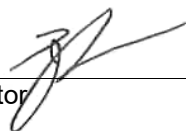
Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 58,696	\$ 54,274
Tenant deposits	36,700	33,705
Deferred revenue	59,731	78,283
Due to related parties (note 8)	897,911	725,532
Current portion of mortgage payable (note 7)	147,972	142,838
	<u>1,201,010</u>	<u>1,034,632</u>
Mortgage payable (note 7)	3,065,511	3,213,483
	<u>4,266,521</u>	<u>4,248,115</u>
Net assets:		
General fund	(765,194)	(522,852)
Replacement reserve (note 10)	1,320,047	1,249,976
	<u>554,853</u>	<u>727,124</u>
Related party transactions (note 9)		
Commitments (note 11)		
	<u>\$ 4,821,374</u>	<u>\$ 4,975,239</u>

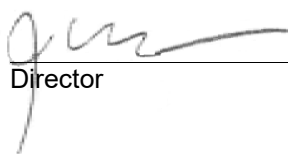
See accompanying notes to financial statements.

Approved on behalf of the Board:

Director



Director



UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Revenue and Expenses

Year ended June 30, 2021, with comparative information for 2020

	2021	2020
Revenue:		
BC Housing subsidy	\$ 614,331	\$ 615,390
Residential rents (note 9)	795,407	805,610
Commercial rents (note 9)	84,079	84,892
Laundry income	6,287	7,362
Interest income	3,770	18,292
Miscellaneous revenue	3,069	4,974
	<u>1,506,943</u>	<u>1,536,520</u>
Expenses:		
Housing administration:		
Administrative services contract (note 9)	70,000	60,000
Audit fees	13,788	14,035
Bad debts	33,698	22,897
Interest and bank charges (note 9)	26,454	44,327
Legal fees	14,795	-
Non-recoverable GST	34,425	36,829
Office supplies and services	3,660	4,662
Staff salaries and benefits (note 9)	175,228	150,974
Technology costs	5,470	4,771
Tenant services (note 9)	85,647	63,452
	<u>463,165</u>	<u>401,947</u>
Building and grounds:		
Building costs from related party (note 9)	504,967	570,379
Electricity	37,904	46,536
General maintenance	142,891	128,745
Heating fuel	12,538	12,142
Insurance	54,808	46,306
Janitorial	77,566	33,489
Property taxes (note 9)	4,816	5,093
Replacement reserve provision	52,416	52,416
Service contracts	42,869	30,848
Waste removal	9,819	12,204
Water and sewer	12,992	14,141
	<u>953,586</u>	<u>952,299</u>
Other expenses:		
Amortization of capital assets	176,482	173,071
Amortization of prepaid land lease	14,375	14,375
BC Housing subsidy repayment	4,283	17,261
Mortgage interest	115,967	121,259
	<u>311,107</u>	<u>325,966</u>
	<u>1,727,858</u>	<u>1,680,212</u>
Deficiency of revenue over expenses	\$ (220,915)	\$ (143,692)

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Changes in Net Assets

Year ended June 30, 2021, with comparative information for 2020

	General fund	Replacement reserve (note 10)	Total 2021	Total 2020
Balance, beginning of year	\$ (522,852)	\$ 1,249,976	\$ 727,124	\$ 804,212
Deficiency of revenue over expenses	(220,915)	-	(220,915)	(143,692)
Acquisition of capital assets	34,480	(34,480)	-	-
Replacement reserve provision	-	52,416	52,416	52,416
Replacement reserve investment income	-	8,204	8,204	19,016
Replacement reserve disbursements	-	(11,976)	(11,976)	(28,216)
Interfund transfers	(55,907)	55,907	-	-
Transfer from related party (note 9)	-	-	-	23,388
Balance, end of year	\$ (765,194)	\$ 1,320,047	\$ 554,853	\$ 727,124

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Cash Flows

Year ended June 30, 2021 with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (220,915)	\$ (143,692)
Items not involving cash:		
Amortization of capital assets	176,482	173,071
Amortization of prepaid land lease	14,375	14,375
Transfer to restricted funds for replacement reserves	(55,907)	(61,642)
Changes in non-cash operating working capital:		
Accounts receivable and accrued receivables	(5,945)	17,431
Prepaid expense	(4,545)	5,192
Accounts payable and accrued liabilities	4,422	7,021
Deferred revenue	(18,552)	27,000
Amounts due to/from related parties	160,534	(152,094)
	49,949	(113,338)
Investments:		
Acquisition of capital assets	(12,543)	-
Financing:		
Principal repayment on mortgage payable	(142,838)	(137,562)
Decrease in cash	(105,432)	(250,900)
Cash, beginning of year	466,039	716,939
Cash, end of year	\$ 360,607	\$ 466,039
Non-cash transaction:		
Acquisition of capital assets funded through replacement reserve	\$ 34,480	\$ -

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements

Year ended June 30, 2021

1. Operations and basis of presentation:

Union Gospel (Heatley) Housing Society (the “Society”) is a not-for-profit organization incorporated under the laws of British Columbia and is registered under the Societies Act (British Columbia). The Society is exempt from income taxes under section 149(1) of the Income Tax Act.

The Society operates two housing projects: Maurice McElrea Place Division and Hastings Division (the “Divisions”). Maurice McElrea Place Division, located at 361 Heatley Avenue, Vancouver works in conjunction with Union Gospel Mission (the “Mission”) to provide fixed term rental housing for low income individuals. Hastings Division, located at 601 East Hastings Street, Vancouver, British Columbia works in conjunction with the Mission to provide affordable transitional housing for individuals who are homeless or at high risk of becoming homeless because of a physical, social, or mental condition or disability. This housing project is under the Provincial Homelessness Initiative (“PHI”) and is administered by the British Columbia Housing Management Commission (“BCHMC”).

In March of 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. At the time of approval of these financial statements, the Society has not experienced any significant impact to operations or a reduction in any of its major funding sources and it is not expected that there will be a material financial impact on operations. Management will continue to monitor the on-going financial impact on its cash and budget forecasts, and adjust its operations as required to ensure its ability to fulfill its obligations and continue operations.

2. Basis of accounting:

These financial statements have been prepared in accordance with the financial reporting provisions of sections 5.11 and 5.12 of the operating agreements (“Agreements”) with BCHMC. These financial statements are prepared to assist the Society to meet the requirements of BCHMC. As a result, these financial statements may not be suitable for another purpose.

Management of the Society has prepared the financial statements in a manner consistent with generally accepted accounting principles (“GAAP”) with some differences as noted below. Management has interpreted GAAP to be the recognition and measurement principles of Canadian Accounting Standards for Not-for-Profit Organizations (“ASNFP”).

The basis of accounting used in these financial statements materially differs from ASNFP as follows:

- The replacement reserve account is funded by an annual charge against earnings of the General Fund and recorded as a direct increase in the Replacement Reserve fund on the Statement of Changes in Net Assets. Interest earned on reserve funds is included in the reserve. Expenditures are charged against the reserve in the year they are incurred.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2021

3. Significant accounting policies:

(a) Capital assets and land lease:

Capital assets and land lease are stated at historical cost and amortized over the useful life of each asset as follows:

Asset	Basis	Rate
Buildings	Straight-line	35 years
Equipment	Straight-line	5 years
Land lease	Straight-line	60 years
Furniture and fixtures	Declining balance	30%

The Society reviews the carrying amount of capital assets for impairment whenever events or changes in circumstances indicate that the asset no longer contributes to the Society's ability to provide services, or that the value of future economic benefits or service potential associated with the asset is less than its carrying amount. If such conditions exist, an impairment loss is measured and recorded in the statement of operations at the amount by which the carrying amount of the asset exceeds its fair value or replacement cost.

(b) Revenue recognition:

The Society uses the deferral method of accounting for contributions.

Rental, subsidies, and other income are recognized as revenue in the year they are earned. Related amounts receivable is recorded if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest and other investment income are recognized when earned on an accrual basis.

(c) Replacement reserve:

A replacement reserve is maintained to provide for future asset replacement and major maintenance. This replacement reserve is created by appropriations from the excess of revenues over expense and is recorded as an expense in the year of appropriation. Disbursements are charged against the reserve in the year they are incurred.

(d) Rent subsidy adjustments:

BCHMC conducts an annual review of the Society's financial performance and may adjust for any operating surplus or deficit. Prior year funding adjustments are recognized in the fiscal year in which they are determined.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2021

3. Significant accounting policies (continued):

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized costs unless management has elected to carry the instruments at fair value. The Society has not made this election.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

Unrestricted and restricted cash consist primarily of interest bearing savings accounts.

(f) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Such estimates include determination of useful lives of capital assets for the purposes of amortization. Actual results could differ from these estimates.

4. Capital assets:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	\$ 5,228,124	\$ 2,812,142	\$ 2,415,982	\$ 2,565,357
Equipment	143,988	100,887	43,101	20,173
Furniture and fixtures	268,990	261,961	7,029	10,041
	\$ 5,641,102	\$ 3,174,990	\$ 2,466,112	\$ 2,595,571

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2021

5. Prepaid land lease:

	2021	2020
Total lease payment	\$ 862,500	\$ 862,500
Accumulated amortization	(269,532)	(255,157)
	\$ 592,968	\$ 607,343

The prepaid land lease is amortized on a straight-line basis over the remaining term of the lease. The land lease is for a 60-year term expiring on September 4, 2061.

6. Restricted cash:

Restricted cash has been set aside for the following purposes:

	2021	2020
Tenant deposits	\$ 36,700	\$ 33,705
Replacement reserve (note 10)	1,320,047	1,249,976
	\$ 1,356,747	\$ 1,283,681

7. Mortgage payable:

	2021	2020
Toronto Dominion Bank, due October 1, 2022 repayable in monthly installments of \$21,602 including principal and interest at 3.56% per annum, compounded semi-annually. Secured by a first mortgage on land lease and building, and by assignment of rents at 361 Heatley Avenue, Vancouver, British Columbia	\$ 3,213,483	\$ 3,356,321
Less current portion	147,972	142,838
	\$ 3,065,511	\$ 3,213,483

Annual principal repayments on mortgage payable in the next five years and thereafter, assuming normal renewal on due date under similar terms, are as follows:

2022	\$ 147,972
2023	152,672
2024	158,028
2025	163,750
2026	169,679
Thereafter	2,421,382
	\$ 3,213,483

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2021

8. Due from/to related parties:

	2021	2020
Due from related parties:		
Union Gospel Mission Foundation	\$ 11,845	\$ -
Due to related parties:		
Union Gospel Mission	\$ 897,911	\$ 714,799
Union Gospel Mission Foundation	-	10,733
	\$ 897,911	\$ 725,532

The current amounts due to related parties have no set terms for repayment and are payable on demand. Amounts bear interest equal to Vancouver City Savings Credit Union ("Vancity") prime plus 0.75% (2020 - Vancity prime rate plus 0.75%).

The Society's members are the directors of the Mission. The Society is related to the Mission and the Union Gospel Mission Foundation (the "Foundation") as they have the same individuals on each of their respective Board of Directors.

9. Related party transactions:

During the year, the Mission charged the Society \$70,000 (2020 - \$60,000) for administrative services, \$504,967 (2020 - \$570,379) for building costs, \$30,000 (2020 - \$54,000) for tenant services, \$175,228 (2020 - \$150,974) for salaries, wages and benefits and \$26,314 (2020 - \$31,112) for interest on related party balances (note 8).

The Society received \$84,079 (2020 - \$84,892) for the rental of the thrift store, \$112,500 (2020 - \$112,500) for the rental of housing and office space and recovered \$27,340 (2020 - \$26,306) in related property tax costs from the Mission.

The Foundation charged the Society \$69 (2020 - \$10,733) for interest on related party balances (note 8).

During 2020, BCHMC approved the transfer of the residual replacement reserve from Union Gospel Housing Society to the Society (note 10).

The above transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2021

10. Replacement reserve:

Under the terms of the agreement with BCHMC, the replacement reserve account is to be funded annually. The replacement reserve funds, along with accumulated interest, must be held in a separate bank account or invested in government bonds or other securities acceptable to BCHMC. The funds may only be used for the replacement of capital assets.

The transfers to the replacement reserve from the General Fund and the transfer from related party recorded in 2020 are in accordance with adjustments arising from BCHMC financial review completed during the fiscal years. The transfer from related party was recorded as a direct increase to replacement reserve.

11. Remuneration disclosure:

The Societies Act (British Columbia) has a requirement for the disclosure in the financial statements of the remuneration of directors, employees and contractors. For the fiscal year ending June 30, 2021, no employees or contractors received annual remuneration of \$75,000 or greater (2020 - nil), and no members of the Society's Board of Directors received any remuneration.

11. Commitments:

The Society has entered into an agreement for tenant support services with committed payments of \$81,031 to be paid on or before July 2022.