

Financial Statements of

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

And Independent Auditor's Report Thereon

Year ended June 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Board of 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, 2023
- the statement of revenue and expenses for the year then ended
- the statement of changes in net assets (deficiencies) 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, 2023 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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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.

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 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 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.
- 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 26, 2023

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Financial Position

June 30, 2023, with comparative information for 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 370,143	\$ 250,562
Accounts receivable and accrued receivables	11,785	4,054
Due from related party (note 8)	305	-
Prepaid expense	18,930	27,781
	<u>401,163</u>	<u>282,397</u>
Capital assets (note 4)	2,123,481	2,298,454
Prepaid land lease (note 5)	564,218	578,593
Restricted cash (note 6)	1,499,046	1,395,184
	<u>\$ 4,587,908</u>	<u>\$ 4,554,628</u>

Liabilities and Net Assets (Deficiencies)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 84,281	\$ 120,177
Tenant deposits	42,555	40,855
Deferred revenue	64,893	50,714
Due to related party (note 8)	-	1,143,443
Current portion of mortgage payable (note 7)	152,053	149,161
	<u>343,782</u>	<u>1,504,350</u>
Mortgage payable (note 7)	2,764,297	2,916,350
Due to related party (note 8)	1,772,422	-
	<u>4,880,501</u>	<u>4,420,700</u>
Net assets (deficiencies):		
General fund	(1,749,084)	(1,220,401)
Replacement reserve (note 10)	1,456,491	1,354,329
	<u>(292,593)</u>	<u>133,928</u>
Related party transactions (note 9)		
Commitment (note 12)		
	<u>\$ 4,587,908</u>	<u>\$ 4,554,628</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, 2023, with comparative information for 2022

	2023	2022
Revenue:		
BC Housing subsidy	\$ 565,019	\$ 547,984
Residential rents (note 9)	700,688	689,549
Commercial rents (note 9)	85,107	85,531
Laundry income	6,485	5,323
Interest income (note 9)	14,137	3,393
Miscellaneous revenue	1,441	2,012
	<u>1,372,877</u>	<u>1,333,792</u>
Expenses:		
Housing administration and programming:		
Administrative services contract (note 9)	70,000	70,000
Audit fees	16,690	14,142
Bad debts	22,479	36,058
Interest and bank charges (note 9)	96,140	35,208
Legal fees	3,133	-
Non-recoverable GST	45,218	33,525
Office supplies and services	7,281	4,739
Staff salaries and benefits (note 9)	183,637	159,041
Technology costs	4,766	7,217
Tenant services	102,900	113,109
	<u>552,244</u>	<u>473,039</u>
Building and grounds:		
Building costs from related party (note 9)	551,897	557,083
Electricity	33,445	43,515
General maintenance	159,397	150,918
Heating fuel	18,858	16,939
Insurance	68,533	54,029
Janitorial	93,384	79,282
Property taxes, net (note 9)	3,747	2,255
Replacement reserve provision	52,416	52,416
Service contracts	38,138	40,640
Waste removal	6,022	6,776
Water and sewer	15,421	13,027
	<u>1,041,258</u>	<u>1,016,880</u>
Other expenses:		
Amortization of capital assets	178,090	181,684
Amortization of prepaid land lease	14,375	14,375
Mortgage interest	118,710	110,819
	<u>311,175</u>	<u>306,878</u>
	<u>1,904,677</u>	<u>1,796,797</u>
Deficiency of revenue over expenses	\$ (531,800)	\$ (463,005)

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Changes in Net Assets (Deficiencies)

Year ended June 30, 2023, with comparative information for 2022

	General fund	Replacement reserve (note 10)	Total 2023	Total 2022
Balance, beginning of year	\$ (1,220,401)	\$ 1,354,329	\$ 133,928	\$ 554,853
Deficiency of revenue over expenses	(531,800)	-	(531,800)	(463,005)
Acquisition of capital assets	3,117	(3,117)	-	-
Replacement reserve provision	-	52,416	52,416	52,416
Replacement reserve investment income	-	55,791	55,791	10,157
Replacement reserve disbursements	-	(2,928)	(2,928)	(20,493)
Balance, end of year	\$ (1,749,084)	\$ 1,456,491	\$ (292,593)	\$ 133,928

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Statement of Cash Flows

Year ended June 30, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (531,800)	\$ (463,005)
Items not involving cash:		
Amortization of capital assets	178,090	181,684
Amortization of prepaid land lease	14,375	14,375
Changes in non-cash operating working capital:		
Accounts receivable and accrued receivables	(7,731)	10,690
Prepaid expense	8,851	(9,430)
Accounts payable and accrued liabilities	(35,896)	63,304
Deferred revenue	14,179	(10,840)
Amounts due to/ from related party	(305)	11,827
	<u>(360,237)</u>	<u>(201,395)</u>
Investments:		
Acquisition of capital assets	-	(6,228)
Financing:		
Principal repayment on mortgage payable	(149,161)	(147,972)
Due to related party	628,979	245,550
	<u>479,818</u>	<u>97,578</u>
Increase (decrease) in cash	119,581	(110,045)
Cash, beginning of year	250,562	360,607
Cash, end of year	<u>\$ 370,143</u>	<u>\$ 250,562</u>
Non-cash transaction:		
Acquisition of capital assets funded through replacement reserve	<u>\$ 3,117</u>	<u>\$ 7,798</u>

See accompanying notes to financial statements.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements

Year ended June 30, 2023

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 on 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 on East Hastings Street, Vancouver 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.

For the year ended June 30, 2023, the Society incurred a deficit of \$531,800 (2022 - \$463,005) and has a net deficiency of \$292,593 (2022 – net asset of \$133,928). The ability of the Society to continue as a going concern is dependent on the continued financial support from Mission and the Society’s ability to improve its revenue streams and to increase operating efficiencies by leveraging B.C. Housing’s subsidy program(s) and technology opportunities. Based on the projected additional funding and cashflow forecasts, management believes that the Society will be able to continue operations. Management will continue to monitor the on-going financial impact on its cash and budget forecasts and will be adjusting its operations as required to ensure it fulfills its obligations and continues its 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 BC Housing Management Commission (“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 these 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 and Deficiencies. 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, 2023

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.

(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.

(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.

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

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:

			2023	2022
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	\$ 5,228,124	\$ 3,110,892	\$ 2,117,232	\$ 2,266,607
Equipment	161,131	158,326	2,805	26,927
Furniture and fixtures	268,990	265,546	3,444	4,920
	\$ 5,658,245	\$ 3,534,764	\$ 2,123,481	\$ 2,298,454

5. Prepaid land lease:

	2023	2022
Total lease payment	\$ 862,500	\$ 862,500
Accumulated amortization	(298,282)	(283,907)
	\$ 564,218	\$ 578,593

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2023

5. Prepaid land lease (continued):

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:

	2023	2022
Tenant deposits	\$ 42,555	\$ 40,855
Replacement reserve (note 10)	1,456,491	1,354,329
	<u>\$ 1,499,046</u>	<u>\$ 1,395,184</u>

7. Mortgage payable:

	2023	2022
Scotia Mortgage Corporation, due October 1, 2032, repayable in monthly installments of \$22,534 including principal and interest at 4.193% per annum, secured by a first mortgage on land lease and building, and by assignment of rents at 361 Heatley Avenue, Vancouver, British Columbia	\$ 2,916,350	\$ 3,065,511
Less current portion	152,053	149,161
	<u>\$ 2,764,297</u>	<u>\$ 2,916,350</u>

Annual principal repayments on mortgage payable in the next five years and thereafter are as follows:

2024	\$ 152,053
2025	158,496
2026	165,211
2027	172,211
2028	179,508
Thereafter	2,088,871
	<u>\$ 2,916,350</u>

UNION GOSPEL (HEATLEY) HOUSING SOCIETY

Notes to Financial Statements (continued)

Year ended June 30, 2023

8. Due from/to related parties:

	2023	2022
Due from related party – current:		
Union Gospel Mission Foundation	\$ 305	\$ -
Due to related party – current:		
Union Gospel Mission	\$ -	\$ 1,143,443
Due to related party – long-term:		
Union Gospel Mission	\$ 1,772,422	\$ -

The current amount due to a related party has no set terms for repayment and is payable on demand. The amount due bears interest at the Vancouver City Savings Credit Union (“Vancity”) prime rate plus 0.75% (2021- Vancity prime rate plus 0.75%).

The long-term amount due to a related party has no set terms for repayment and are payable on demand. As the parties have agreed that this amount will not be demanded in the subsequent year it has been classified as a long-term liability in these financial statements. The amounts bear interest equal to Vancouver City Savings Credit Union (“Vancity”) prime plus 0.75% (2022 - 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 (2022 - \$70,000) for administrative services, \$551,897 (2022 - \$557,083) for building costs, \$183,637 (2022 - \$159,041) for salaries, wages and benefits and \$95,772 (2022 - \$35,208) for interest on related party balances (note 8).

The Society received \$85,107 (2022 - \$85,531) for the rental of the thrift store, nil (2022 - \$65,675) for the rental of housing and office space and recovered \$29,205 (2022 - \$33,877) in related property tax costs from the Mission.

The Society earned \$305 (2022 - nil) of interest on related party balances (note 8) with the Foundation during the year.

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, 2023

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 are held in bank cash accounts and may only be used for specified capital related expenditures.

11. Remuneration disclosure:

The Societies Act (British Columbia) has a requirement for the disclosure in these financial statements of the remuneration of directors, employees and contractors. For the fiscal year ending June 30, 2023, no employees or contractors received annual remuneration of \$75,000 or greater (2022 - \$75,000 or greater), and no members of the Society's Board of Directors received any remuneration.

12. Commitment:

The Society has entered into an agreement for tenant support services with committed payments of \$78,549 per annum to be paid on or before March 2024.

13. Financial risks and concentrations of risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Society will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Society manages its liquidity risk by monitoring its operating requirements. The Society prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk is the risk of economic loss arising from a party's failure to repay or service debt according to contractual terms. Financial instruments that potentially subject the Society to concentrations of credit risk consist of cash and receivables. The Society has deposited cash with large reputable financial institutions, from which management believes the risk of loss to be remote. Management does not believe the Society is subject to any significant credit risks related to its accounts receivable or amounts due from related parties.

(c) Interest rate risk:

The Society is exposed to interest rate risks on its due to/from related party balances (note 8) which has a floating rate of interest which is subject to cash flow risk.

There has been no significant change to the risk exposures from the prior year.

14. Comparative information:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.