Combined Consolidated Financial Statements of

THE MUSTARD SEED

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Mustard Seed Society and the Mustard Seed Foundation (together herein referred to as "The Mustard Seed")

Opinion

We have audited the combined consolidated financial statements of The Mustard Seed (the "Entity"), which comprise:

- the combined consolidated statement of financial position as at March 31, 2020;
- the combined consolidated statement of operations for the year then ended;
- the combined consolidated statement of changes in net assets for the year then ended;
- the combined consolidated statement of cash flows for the year then ended;
- and notes to the combined consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, except for possible effects of the matter described in the "Basis for Qualified Opinion" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its 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 Qualified Opinion

In common with many charitable organizations, The Mustard Seed derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether, any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at March 31, 2020 and March 31, 2019;
- the donation and fundraising revenues and Deficiency of revenues over expenses reported in the statement of operations for the years ended March 31, 2020 and March 31, 2019;
- the unrestricted net assets at the beginning and end of the year reported in the statement of changes in net assets for the years ended March 31, 2020 and March 31, 2019; and
- the deficit of revenues over expenses reported in the statement of cash flows for the years ended March 31, 2020 and March 31, 2019.

Our opinion on the financial statements for the year ended March 31, 2019 was qualified accordingly because of the possible effects of this limitation in scope.

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 Entity 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 qualified opinion.

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

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’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 Entity'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 Entity'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 Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants

July 30, 2020
Calgary, Alberta

THE MUSTARD SEED

Combined Consolidated Statement of Financial Position

March 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 2,896,980	$ 3,180,754
Accounts receivable (note 4)	831,311	816,318
Prepaid expenses	198,405	103,466
Assets held for sale (note 6)	750,000	–
	4,676,696	4,100,538
Non-current assets:		
Restricted cash (note 5)	210,210	205,988
Capital assets (note 6)	58,174,574	61,248,093
	58,384,784	61,454,081
	$ 63,061,480	$ 65,554,619
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,745,548	$ 1,866,794
Deferred contributions (note 7)	811,787	65,371
Loans and borrowings (note 8)	192,962	5,029,986
	2,750,297	6,962,151
Non-current liabilities:		
Loans and borrowings (note 8)	6,278,952	1,330,588
Deferred capital contributions (note 9)	41,907,140	43,542,668
Replacement reserve (note 5)	210,210	205,988
	48,396,302	45,079,244
Total liabilities	51,146,599	52,041,395
Net assets:		
Internally restricted (note 10)	1,266,424	1,266,424
Invested in capital assets (note 11)	11,914,880	13,513,223
Unrestricted	(1,266,423)	(1,266,423)
	11,914,881	13,513,224
Commitments and contingencies (note 12)		
Subsequent events (note 6)		
	$ 63,061,480	$ 65,554,619

See accompanying notes to combined consolidated financial statements

Approved on behalf of the boards of directors:

(The Mustard Seed Society) (The Mustard Seed Foundation)

THE MUSTARD SEED

Combined Consolidated Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Revenues:		
Donations (note 13)	$ 17,735,414	$ 16,068,148
Government funding	8,374,558	7,664,298
Rental	2,934,756	2,867,233
Investment and other income	197,862	244,205
	29,242,590	26,843,884
Expenses:		
Programs:		
Donation funded (note 13)	16,550,778	15,451,811
Government supported	7,118,374	6,514,653
	23,669,152	21,966,464
Other:		
Resource development, marketing and public education	4,527,081	4,424,342
Administration	519,327	359,254
Rental properties	2,061,825	2,179,892
Loss on sale of capital assets (note 9)	–	220,279
	7,108,233	7,183,767
	30,777,375	29,150,231
Deficiency of revenues over expenses before business loss	(1,534,795)	(2,306,348)
Business net loss	(77,549)	(308,168)
Deficiency of revenue over expenses	$ (1,612,344)	$ (2,614,516)

See accompanying notes to combined consolidated financial statements

THE MUSTARD SEED

Combined Consolidated Statement of Changes in Net Assets

Year ended March 31, 2020, with comparative information for 2019

2020	Unrestricted	Internally restricted	Invested in capital assets	Total
Balance, beginning of year	$(1,266,423)	$ 1,266,424	$13,513,224	$ 13,513,225
Deficiency of revenue over expenses	(987,809)	–	(624,535)	(1,612,344)
Net investment in capital assets	987,809	–	(987,809)	–
Contribution of land (note 6)	–	–	14,000	14,000
Balance, end of year	$(1,266,423)	$ 1,266,424	$11,914,880	$ 11,914,881

2019	Unrestricted	Internally restricted	Invested in capital assets	Total
Balance, beginning of year	$(1,269,977)	$ 1,266,424	$14,876,269	$ 14,872,716
Deficiency of revenue over expenses	(1,667,817)	–	(946,699)	(2,614,516)
Net investment in capital assets	1,671,371	–	(1,671,371)	–
Contribution of land	–	–	1,255,025	1,255,025
Balance, end of year	$(1,266,423)	$ 1,266,424	$13,513,224	$ 13,513,225

See accompanying notes to combined consolidated financial statements

THE MUSTARD SEED

Combined Consolidated Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Deficiency of revenues over expenses	$ (1,612,344)	$ (2,614,516)
Items not affecting cash flows:		
Depreciation (note 11)	2,919,118	2,871,527
Amortization of deferred capital contribution (note 11)	(2,294,583)	(2,232,661)
Loss on sale of capital assets (note 9)	–	220,279
	(987,809)	(1,755,371)
Net change in non-cash working capital balances:		
Accounts receivable	(14,993)	(65,594)
Prepaid expenses	(94,939)	(25,522)
Accounts payable and accrued liabilities	(121,246)	(479,256)
Deferred contributions	746,416	(172,905)
	(472,571)	(2,498,648)
Financing activities:		
Repayment of loan	(5,029,985)	(4,360,799)
Proceeds from long term debt	5,141,325	5,000,000
Capital contribution (paid) received (note 9)	455,337	–
Repayment of Kamloops related debt	–	(537,791)
	566,677	101,410
Investing activities:		
Proceeds on disposal of capital assets	–	1,147,106
Purchase of capital assets (note 11)	(377,880)	(951,176)
	(377,880)	195,930
Decrease in cash and cash equivalents	(283,774)	(2,201,308)
Cash and cash equivalents, beginning of year	3,180,754	5,382,062
Cash and cash equivalents, end of year	$ 2,896,980	$ 3,180,754

See accompanying notes to combined consolidated financial statements

1. Nature of organization:

These financial statements comprise the combined operations of The Mustard Seed Society (the "Society") and The Mustard Seed Foundation (the "Foundation") (together herein referred to as "TMS"). The Foundation is consolidated to include Seed Works Inc. ("Seed Works"), a for-profit corporation wholly-owned by the Foundation. With the exception of Seed Works, TMS is a Christian non-profit organization that has been caring for the needs of those experiencing poverty and homelessness since 1984. Through its ministry centers across Alberta and Kamloops, British Columbia, TMS delivers basic services, housing and employment programs to those in need and partners with the community to address the root causes of poverty.

Services provided by TMS include:

(a) Basic Services:
- Meals and food hampers;
- Clothing and personal hygiene items;
- 370 emergency shelter beds (355 beds subsequent to year end);
- Spiritual support, Bible studies and worship services; and
- Health and wellness programs – dental, chiropractic, and medical.

(b) Employment:
- Job search assistance;
- Job preparation assistance – résumé help, interview preparation;
- One-on-one job coaching and mentoring; and
- Referrals for skills training and education.

(c) Housing:
- Permanent, supportive housing;
- Housing advocacy;
- Support through resident assistants and caseworkers; and
- Community building, recreation and leisure opportunities, and social activities.

TMS accomplishes its mission through:
- Mobilizing volunteers from the church and community to care for the needs of those experiencing homelessness and poverty;
- Educating the community on the issues of poverty and homelessness through speaking presentations, information booths, tours, inner-city missions opportunities for students, etc.;
- Fundraising activities that involve individual, corporate, government and other supporters; and
- Receiving and distributing gifts-in-kind of food, clothing, personal hygiene items, gift certificates and other needed items.

1. Nature of organization (continued):

TMS strives to support change in the lives of those in need, together with the celebrated efforts of volunteers, donors and the community.

The Society and the Foundation are incorporated under the provisions of the *Societies' Act* of the Province of Alberta. The Society and the Foundation are also registered as charitable organizations authorized to issue donation receipts for income tax purposes under paragraph 149(1) of the *Income Tax Act,* and are exempt from Federal and Alberta income taxes, provided certain requirements of the *Income Tax Act* are met.

2. Basis of presentation:

These combined consolidated financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations ("ASNPO").

3. Significant accounting policies:

The following is a summary of significant accounting policies followed in preparation of the combined consolidated financial statements:

(a) Basis of combination and consolidation:

The TMS combined consolidated financial statements include the combined operations of the Society and the Foundation, which is consolidated to include Seed Works. The Society and the Foundation are independent entities that exist for a common economic and community purpose. Inter-entity balances and transactions are eliminated in preparing the combined consolidated financial statements.

(b) Use of estimates and judgment:

The preparation of combined consolidated financial statements in accordance with ASNPO requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenditures. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies (continued):

(b) Use of estimates and judgment:

In preparing these combined consolidated financial statements, the significant judgments made by management in applying TMS's accounting policies and the key sources of estimation were the depreciation rates and useful lives of capital assets, impairment of long-lived assets, allocation of expenditures and valuation of gift-in-kind donations.

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and Alberta governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in Calgary resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The ultimate duration and magnitude of the impact on the economy and the financial effect on the TMS's future revenues, operating results and overall financial performance is not known at this time.

As at the reporting date, TMS has determined that COVID-19 has had no impact on its contracts or lease agreements, the assessment of provisions and contingent liabilities, or the timing of revenue recognition. Management has assessed the financial impacts of the COVID-19 pandemic and did not identify any impacts on its financial statements as at March 31, 2020.

(c) Revenue recognition:

TMS follows the deferral method of accounting for contributions. Revenue containing conditions as to its use (restricted contributions) is deferred until the conditions are fulfilled. Contributions, including government funding not containing restrictions as to their use, are recognized upon receipt or when receivable if the amount can be reasonably estimated and collection is assured. Rental revenue is recognized in the period during which occupancy took place.

Investment income, which includes interest, dividends, realized and unrealized gains and losses on sale of investments, are recognized on an accrual basis.

Donations and government funding restricted for the acquisition of capital assets are recognized as revenue in amounts that match the amortization expense of the related capital assets purchased with the donations and government funding.

In-kind contributions of goods and services are recognized in the financial statements at fair value as at the date of contribution when fair value can be reasonably estimated and when the materials and services are used in the normal course of the organization's operations and would otherwise have been purchased.

3. Significant accounting policies (continued):

(d) Cash and cash equivalents:

Cash and cash equivalents include deposits in banks, certificates of deposit and other short-term investments with original maturities of less than 90 days at year end.

(e) Capital assets:

Capital assets are measured at cost less accumulated amortization. Land is carried at cost and not amortized. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Category	Term
Land lease	25 years
Buildings	25 years
Furniture and equipment	5 years
Vehicles	3 1/3 years
Leasehold improvements	Lease term
Computer software	5 years

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. TMS has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

3. Significant accounting policies (continued):

(f) 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, TMS 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 TMS 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.

(g) Impairment of long lived assets:

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying amount exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over the asset's fair value.

(h) Volunteer services:

The efforts of volunteer workers are not reflected in the accompanying financial statements, in as much as no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to TMS.

(i) Changes in accounting policies:

In March 2018, the Accounting Standards Board issued "Basis for Conclusions – Accounting Standards Improvements for Not-for-Profit Organizations" resulting in the introduction of new handbook sections in the Accounting Standards for Not-for-Profit Part III of the Handbook as follows:

(i) Section 4433:

Tangible capital assets held by not-for-profit organizations, which directs organizations to apply the accounting guidance of Section 3061, Property Plant and Equipment in Part II of the Handbook. In so doing, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense. In addition, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components.

3. Significant accounting policies (continued):

(i) Changes in accounting policies (continued):

(i) Section 4433 (continued):

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairments of tangible assets that existed as at April 1, 2019.

(ii) Section 4434:

Intangible assets held by not-for-profit organizations, which directs organizations to annually assess intangible assets, and where applicable to record impairment expenses should the net carrying value be higher than the asset's fair value or replacement cost.

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairment of intangible assets that existed as at April 1, 2019.

(iii) Section 4441:

Collections held by not-for-profit organizations, which defines a collection and directs organizations to record such assets on the statement of financial position at either cost or nominal value. It is anticipated that all collections will be accounted for using the same method, with the exception of organizations that opt to account for collections at cost, whereby the cost for certain collections either held or contributed cannot be determined. Such items are to be accounted for at a nominal value. In addition, collections are written down when there is evidence that the net carrying amount exceeds fair value.

Organizations are permitted to retrospectively capitalize collections at their cost or fair value at the date of acquisition, or fair value or replacement cost as at April 1, 2019, based on the most readily determinable value. In addition, an adjustment to opening net assets is permitted to recognize any partial impairment of the value of collections that existed as at April 1, 2019.

The above three amendments are effective for financial statements for fiscal years beginning on or after January 1, 2019. The implementation of these changes had no impact on these financial statements.

4. Accounts receivable:

Accounts receivable comprises the following:

	2020	2019
Government taxes recoverable	$ 128,742	$ 121,997
Government funding receivable	230,175	133,036
Trade accounts receivable and other	472,394	561,285
	$ 831,311	$ 816,318

5. Restricted cash and replacement reserve:

Pursuant to operating agreements with the Government of Alberta - Municipal Affairs Housing Division, TMS is required to maintain restricted funds as a replacement reserve. Use of the funds, including accumulated interest, is subject to approval by the Government of Alberta - Municipal Affairs Housing Division. At the end of current fiscal year, the replacement reserve had a balance of $210,210 (2019 – $205,988). The operating agreement expired on December 1, 2019. Subsequent to year end post obtaining approval of the final program reporting, the annual replacement reserve allocation will no longer be required.

6. Capital assets:

The net carrying amount of capital assets is as follows:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Land and land lease	$ 10,175,649	$ 86,569	$ 10,089,080	$ 10,075,079
Buildings	67,176,961	20,053,000	47,123,961	50,110,040
Furniture and equipment	2,225,114	1,877,740	347,374	307,117
Computer Software	819,196	238,958	580,238	691,420
Vehicles	265,410	231,489	33,921	64,437
	$ 80,662,330	$22,487,756	$ 58,174,574	$ 61,248,093

6. Capital assets (continued):

On October 1, 2019, TMS received a donation from Champion's Centre. The assets received consisted primarily of capital assets being land and building. The land and building were recorded based on the estimated fair values at the transaction date. As a result of the transaction, land and buildings were recorded at $14,000 and $195,200 respectively, with the land amount recorded as a direct increase in net assets and the buildings amount recorded in deferred capital contributions (note 9).

Included in capital assets at March 31, 2020 is the Mountain Aire Lodge facility ("MAL") in Sundre, Alberta. The net carrying value of MAL at March 31, 2020 is $750,000 (2019 – $750,000). The property is located on third-party owned land and was damaged in the 2013 flood. During the current fiscal year, TMS has been actively trying to sell the property and no impairment loss was identified by management as at March 31, 2020. MAL continued to use the assets during the current fiscal year and earned revenues of $31,987 (2019 – $68,620) and incurred expenses of $195,070 (2019 – $269,006).

Subsequent to year end, the sale was closed in April 2020 for MAL at a purchase price of $830,000.

7. Deferred contributions:

Deferred contributions relate to externally restricted operating funding received in the current year for subsequent years' expenses. These contributions must be used for specific purposes designated by the funders. As at March 31, 2020, the balance of deferred contributions was $811,787 (2019 – $65,371). During the year, $7,591,481 (2019 – $860,156) in deferred contributions were received and $6,845,065 (2019 – $1,033,061) were recognized as revenue upon the satisfaction of all externally imposed restrictions.

8. Loans and borrowings:

Loans and borrowings comprise the following:

	Notes	2020	2019
CIBC loan (1010 mortgage):	(a)	$ –	$ 4,979,690
Less current portion	(a)	–	4,979,690
Non-current portion		–	–
BMO loan (1010 mortgage):	(b)	5,141,325	–
Less current portion	(b)	140,816	–
Non-current portion		5,000,509	–
BMO loan (Open Door Manor, Edmonton):	(c)	887,424	925,550
Less current portion	(c)	39,419	38,127
Non-current portion		848,005	887,423
CBWC loan (Neighbour Center, Edmonton):	(d)	443,165	455,334
Less current portion	(d)	12,727	12,169
Non-current portion		430,438	443,165
Total current portion		$ 192,962	$ 5,029,986
Total non-current portion		$ 6,278,952	$ 1,330,588

(a) CIBC loan (1010 mortgage):

CIBC loan was settled in full in March of 2020.

(b) BMO loan (1010 mortgage):

This facility is repayable over 25 years in monthly instalments of $24,301, including interest, at the bank's fixed rate of 2.97% for fiscal 2020. As at year ended March 31, 2020, $5,141,325 had been drawn. Interest expense of $2,142 was incurred during the year. The principal amount due in the next year is $140,816, which is included in the current portion of long-term loans and borrowings.

The facility is secured by a general security agreement providing BMO with a security interest over all present and after-acquired property of TMS, including the related building.

(c) BMO loan (Open Door Manor, Edmonton):

BMO loan is repayable in monthly instalments of $5,560, including interest, at a fixed rate of 3.14%. The loan facility is secured by a registered first-ranking mortgage in the amount of $990,000 on the financed property, and matures on July 4, 2022. Interest expense of $28,595 was paid during the year. The principal amount due in the next year is $39,419, which is included in the current portion of long-term loans and borrowings.

8. Loans and borrowings (continued):

(d) CBWC loan (Neighbour Center, Edmonton):

The term loan is repayable in monthly instalments of $2,500, including interest, at a fixed rate of 3.95%. The loan facility is secured by a collateral land mortgage in the amount of $472,000 on the financed property. The interest expense of $17,831 was incurred during the year. The principal amount due in the next year is $12,728, which is included in the current portion of long-term loans and borrowings. The loan facility matures on September 1, 2022.

Subsequent to the year end, this mortgage was paid off and the loan was consolidated into the existing BMO facility and a interest rate SWAP was entered with the notional amount increased to $5,571,570 and under this arrangement, TMS pays a fixed interest rate of 2.97% and receives CAD-BA-CDOR floating interest rate at a spread of 180 basis points.

(e) Available borrowing:

At March 31, 2020, TMS had $1 million (2019 – $1 million) available on a revolving demand loan facility for general operating purposes. The facility bears interest at the bank's prime rate less 0.15%. At March 31, 2020, TMS had not drawn on this facility (2019 – $nil).

(f) Scheduled repayments:

Annual scheduled repayment of loans and borrowings are as follows:

	Amount
2021	$ 192,962
2022	198,454
2023	204,629
2024	210,934
2025	217,562
Thereafter	5,447,373
	$ 6,471,914

(g) Bank covenants:

Under TMS previously existing lending agreements, it was required to be in compliance with certain financial covenants. At March 31, 2020, under the terms of lending agreements entered during the year, TMS has no financial covenant requirements to be met.

9. Deferred capital contributions:

Deferred capital contributions represent restricted funds received and designated to be used for capital purposes. Changes during the year comprise the following:

	2020	2019
Balance, beginning of year	$ 43,542,669	$ 43,033,171
Contributions received	455,337	(307,833)
Contributed assets (net) (note a)	203,717	2,742,159
Contributions recognized as revenue (note b)	(2,294,583)	(1,924,829)
	$ 41,907,140	$ 43,542,668

(a) Contributed assets:

Contributed assets include the building with the net book value of $195,200 contributed by Champion's Centre in the current year.

(b) Contributions recognized as revenue:

Deferred capital contributions recognized as revenue are included in donations and government funding revenue on the statement of operations.

10. Internally restricted net assets:

The TMS Boards review net assets annually and may increase or decrease the amount designated as internally restricted net assets. These funds are to be set aside as an operating contingency fund that can be drawn upon should funding be insufficient to meet expenditures.

11. Investment in capital assets:

Net assets invested in capital assets comprises the following:

	2020	2019
Capital assets (note 6)	$ 58,174,574	$ 61,248,093
Assets held for sale	750,000	–
Amounts financed by:		
Net working capital, including cash	1,369,361	2,168,372
Loans and borrowing	(6,471,914)	(6,360,574)
Deferred capital contributions	(41,907,140)	(43,542,668)
	$ 11,914,881	$ 13,513,223

11. Investment in capital assets (continued):

Deficiency of revenue over expenses within net assets invested in capital assets for the year comprises:

	2020	2019
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions (note a)	$ 2,294,583	$ 2,232,611
Amortization of capital assets	(2,919,118)	(2,871,527)
	$ (624,535)	$ (638,866)

(a) Amortization of deferred capital contributions primarily relates to two properties located in Kamloops, Champion's Centre building in Medicine Hat, 1010 Center, 102 and 106 properties on 11th Avenue, and 14th Street building located in Calgary.

	2020	2019
Net change in investment in capital assets:		
Capital expenditures	$ 377,880	$ 951,176
Contributed assets	203,717	3,456,480
Amounts financed by:		
Deferred capital contributions	(645,052)	(3,033,465)
Change in loans and borrowings	(111,340)	(639,201)
Change in restricted cash	–	(3,516)
Deficiency of revenue over expenses	(624,535)	(638,866)
Net change in working capital, including cash	(799,012)	(1,455,654)
	$(1,598,342)	$ (1,363,046)

12. Commitments and contingencies:

(a) Operating leases:

TMS leases buildings, vehicles and equipment under operating leases over terms that typically run for a period of 2 to 5 years, with options to renew the leases prior to the end of the terms.

Non-cancellable annual operating lease commitments are payable as follows:

		Amount
2021	$	526,694
2022		509,182
2023		452,319
2024		149,633
2025		57,900

(a) Contingencies:

TMS is engaged in certain claims and legal actions in the ordinary course of operations. Management believes that the ultimate outcome of these actions will not have a material adverse effect on the results of operations or financial position of TMS.

(b) Commitments:

The Mustard Seed Society has entered into a joint venture agreement with Ogden United Church to build 24 two and three-bedroom units for low-income Calgarians. Total commitment for the entity towards this project is up to $6 million.

13. Contributed goods and services:

TMS receives contributions of goods and services. Contributions of goods that have an independently determinable fair value, and would have otherwise been purchased, are recorded as revenue. Consumption or use of these goods is reflected as program expenses.

Amounts recognized in the statement of operations for the year are as follows:

		2020		2019
Donation revenue	$	624,299	$	433,902
Program expense		624,299		433,902

14. Financial risks and concentration of credit risk:

(a) Currency risk:

Currency risk is the risk associated with transacting in and holding balances that are denominated in foreign currencies. On occasion, TMS receives donations denominated in foreign currencies. These are converted to Canadian currency as soon as practicable. Aside from these transactions, TMS is not exposed to currency risk. There has been no change to currency risk exposure during the year.

(b) Liquidity risk:

Liquidity risk is the risk that TMS will be unable to fulfill its obligations on a timely basis or at a reasonable cost. TMS manages its liquidity risk by monitoring its operating cash flow requirements, and by preparing budgets and cash flow forecasts to ensure it has sufficient funds to meet its obligations. There has been no change to liquidity risk exposure during the year other than as stated in note 8 and the exposure may also get impacted pursuant to COVID-19 (refer note 2).

(c) Credit risk:

Credit risk is the risk that a counter-party will default on its contractual obligations resulting in a financial loss. TMS is exposed to credit risk on its accounts receivable and cash. Management assesses on a continuous basis its accounts receivable and makes a provision for any amounts that are not collectible through an allowance for doubtful accounts.

There has been no change to credit risk exposure during the year. Cash is deposited at reputable commercial banks.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. TMS is exposed to interest rate risk on interest-bearing cash deposits and loans and borrowings, including certain loans and borrowings that bear interest at rates that fluctuate with market interest rates (note 8). There has been no change to interest rate risk exposure during the year, other than a new borrowing facility entered replacing an existing borrowing facility.

15. Financial information return for purposes of the charitable fund-raising act:

Under Section 7(2) of the *Charitable Fund-raising Act,* the following amounts are disclosed in addition to those disclosures reflected elsewhere in these financial statements, which together comprise the Financial Information Return of TMS:

	2020	2019
Gross contributions received, exclusive of government contributions	$ 17,448,349	$ 15,504,572
Total direct expenses incurred for soliciting contributions	2,729,789	2,804,841
Remuneration to employees whose principal duties involved fundraising	1,095,961	1,069,075