

Combined Financial Statements of

THE MUSTARD SEED

And Independent Auditors' Report thereon

Year ended March 31, 2019



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

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 financial statements of The Mustard Seed (the "Entity"), which comprise:

- the combined statement of financial position as at March 31, 2019;
- the combined statement of operations for the year then ended;
- the combined statement of changes in net assets for the year then ended;
- the combined 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, 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, 2019, 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, 2019 and March 31, 2018;
- the donation revenues and (deficiency) excess of revenues over expenses reported in the statement of operations for the years ended March 31, 2019 and March 31, 2018;
- 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, 2019 and March 31, 2018; and
- the (deficiency) excess of revenues over expenses reported in the statement of cash flows for the years ended March 31, 2019 and March 31, 2018.

Our opinion on the financial statements for the year ended March 31, 2018 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 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

Calgary, Alberta
August 15, 2019

THE MUSTARD SEED

Combined Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,180,754	\$ 5,382,062
Accounts receivable (note 4)	816,318	747,688
Prepaid expenses	103,466	77,944
	<u>4,100,538</u>	<u>6,207,694</u>
Non-current assets:		
Restricted cash (note 5)	205,988	209,023
Capital assets (note 6)	61,248,093	60,003,233
	<u>61,454,081</u>	<u>60,212,256</u>
	<u>\$ 65,554,619</u>	<u>\$ 66,419,950</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,866,794	\$ 2,345,391
Deferred contributions (note 7)	65,371	238,276
Loans and borrowings (note 8)	5,029,986	369,254
	<u>6,962,151</u>	<u>2,952,921</u>
Non-current liabilities:		
Loans and borrowings (note 8)	1,330,588	5,352,119
Deferred capital contributions (note 9)	43,542,668	43,033,171
Replacement reserve (note 5)	205,988	209,023
	<u>45,079,244</u>	<u>48,594,313</u>
Net assets:		
Internally restricted (note 10)	1,266,424	1,266,424
Invested in capital assets (note 11)	13,513,223	14,876,269
Unrestricted	(1,266,423)	(1,269,977)
	<u>13,513,224</u>	<u>14,872,716</u>
Commitments and contingencies (note 12)		
Subsequent events (note 6)		
	<u>\$ 65,554,619</u>	<u>\$ 66,419,950</u>

See accompanying notes to combined financial statements

Approved on behalf of the boards of directors:



(The Mustard Seed Society)



(The Mustard Seed Foundation)

THE MUSTARD SEED

Combined Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Revenues:		
Donations (note 13)	\$ 16,068,148	\$ 15,011,750
Government funding	7,664,298	8,524,095
Rental	2,867,233	2,461,755
Investment and other income	244,205	654,445
	<u>26,843,884</u>	<u>26,652,045</u>
Expenses:		
Programs:		
Donation funded (note 13)	15,451,811	12,145,129
Government supported	6,514,653	7,245,481
	<u>21,966,464</u>	<u>19,390,610</u>
Other:		
Resource development, marketing and public education	4,424,342	4,190,006
Administration	359,254	375,142
Rental properties	2,179,892	2,088,259
Loss on sale of capital assets (note 9)	220,279	—
	<u>7,183,767</u>	<u>6,653,407</u>
	<u>29,150,231</u>	<u>26,044,017</u>
(Deficiency) excess of revenues over expenses before business loss	(2,306,348)	608,028
Business net loss	(308,168)	(216,471)
(Deficiency) excess of revenue over expenses	<u>\$ (2,614,516)</u>	<u>\$ 391,557</u>

The comparative figures included in this statement have been restated to conform with the expense classification methodology adopted for the current year.

See accompanying notes to combined financial statements

THE MUSTARD SEED

Combined Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018

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 (note 6)	—	—	1,255,025	1,255,025
Balance, end of year	\$ (1,266,423)	\$ 1,266,424	\$ 13,513,224	\$ 13,513,225

2018	Unrestricted	Internally restricted	Invested in capital assets	Total
Balance, beginning of year	\$ (1,268,825)	\$ 1,266,424	\$ 14,483,560	\$ 14,481,159
Excess (deficiency) of revenue over expenses	964,678	—	(573,121)	391,557
Net investment in capital assets	(965,830)	—	965,830	—
Balance, end of year	\$ (1,269,977)	\$ 1,266,424	\$ 14,876,269	\$ 14,872,716

See accompanying notes to combined financial statements

THE MUSTARD SEED

Combined Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenues over expenses	\$ (2,614,516)	\$ 391,557
Items not affecting cash flows:		
Depreciation (note 11)	2,871,527	2,743,921
Amortization of deferred capital contribution (note 11)	(2,232,661)	(2,170,800)
Loss on sale of capital assets (note 9)	220,279	—
	<u>(1,755,371)</u>	<u>964,678</u>
Net change in non-cash working capital balances:		
Accounts receivable	(65,594)	(588,645)
Prepaid expenses	(25,522)	108,989
Accounts payable and accrued liabilities	(479,256)	641,355
Deferred contributions	(172,905)	94,092
	<u>(2,498,648)</u>	<u>1,220,469</u>
Financing activities:		
Repayment of loan	(4,360,799)	(353,192)
Proceeds from long term debt	5,000,000	1,462,000
Capital contribution received (note 9)	—	61,205
Repayment of Kamloops related debt (note 6)	(537,791)	—
	<u>101,410</u>	<u>1,170,013</u>
Investing activities:		
Proceeds on disposal of capital assets	1,147,106	—
Purchase of capital assets (note 11)	(951,176)	(2,331,983)
Increase (decrease) in cash and cash equivalents	<u>(2,201,308)</u>	<u>58,499</u>
Cash and cash equivalents, beginning of year	5,382,062	5,323,563
Cash and cash equivalents, end of year	<u>\$ 3,180,754</u>	<u>\$ 5,382,062</u>

See accompanying notes to combined financial statements

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Notes to Combined Financial Statements

Year ended March 31, 2019, with comparative information for 2018

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 includes Seed Works Inc. ("Seed Works"), a for-profit corporation wholly-owned and consolidated 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;
- 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.

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Notes to Combined Financial Statements, page 2

Year ended March 31, 2019, with comparative information for 2018

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 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 financial statements:

(a) Basis of combination:

The TMS combined financial statements include the combined operations of the Society, the Foundation, and 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 financial statements.

(b) Use of estimates and judgment:

The preparation of combined 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.

In preparing these combined 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, and allocation of expenditures.

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Notes to Combined Financial Statements, page 3

Year ended March 31, 2019, with comparative information for 2018

3. Significant accounting policies (continued):

(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.

(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.

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Notes to Combined Financial Statements, page 4

Year ended March 31, 2019, with comparative information for 2018

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

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.

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, inasmuch 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.

4. Accounts receivable:

Accounts receivable comprises the following:

	2019	2018
Sales taxes recoverable	\$ 121,997	\$ 156,289
Government funding receivable	133,036	61,174
Trade accounts receivable and other	561,285	530,225
	<u>\$ 816,318</u>	<u>\$ 747,688</u>

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Notes to Combined Financial Statements, page 5

Year ended March 31, 2019, with comparative information for 2018

5. Restricted cash and replacement reserve:

Pursuant to operating agreements with the Government of Alberta - Municipal Affairs Housing Division, TMS is required to set aside funds annually 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 \$205,988 (2018 – \$209,023). The operating agreement will expire on December 1, 2019. From that date, 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	2019 Net book value	2018 Net book value
Land and land lease	\$ 10,161,648	\$ 86,569	\$ 10,075,079	\$ 9,488,655
Buildings	67,529,152	17,419,112	50,110,040	50,025,898
Furniture and equipment	2,184,265	1,877,148	307,117	426,279
Computer Software	790,553	99,133	691,420	–
Vehicles	340,497	276,060	64,437	62,401
	<u>\$ 81,006,115</u>	<u>\$ 19,758,022</u>	<u>\$ 61,248,093</u>	<u>\$ 60,003,233</u>

On September 1, 2018, TMS received a donation from New Life Community of Change. The assets received consisted primarily of capital assets being land and buildings. These assets were subject to an external valuation whereby land and buildings were recorded based on the estimated fair values at the transaction date. As a result of the transaction, land and buildings were recorded at \$1,255,025 and \$3,172,282 respectively, with the land amount recorded as a direct increase in net assets and the buildings amount recorded in deferred capital contribution.

Included in capital assets at March 31, 2019 is the Mountain Aire Lodge facility (“MAL”) in Sundre, Alberta. The net carrying value of MAL at March 31, 2019 is \$750,000 (2018 – \$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, 2019. MAL continued to use the assets during the current fiscal year and earned revenues of \$68,620 (2018 – \$72,922) and incurred expenses of \$269,006 (2018 – \$289,393).

Subsequent to year end, an agreement was reached with a potential buyer for the sale of MAL, under which an initial deposit of \$100,000 has been made into an escrow account subject to normal closing conditions. The sale is expected to close in August 2019.

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Notes to Combined Financial Statements, page 6

Year ended March 31, 2019, with comparative information for 2018

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, 2019, the balance of deferred contributions was \$65,371 (2018 – \$238,276). During the year, \$860,156 in deferred contributions were received and \$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	2019	2018
ATB loan (1010 mortgage):	(a)	\$ –	\$ 4,291,608
Less current portion	(a)	–	321,211
Non-current portion		–	3,970,397
CIBC loan (1010 mortgage):	(b)	4,979,690	–
Less current portion	(b)	4,979,690	–
Non-current portion		–	–
BMO loan (Open Door Manor, Edmonton):	(c)	925,550	962,575
Less current portion	(c)	38,127	36,497
Non-current portion		887,423	926,078
CBWC loan (Neighbour Centre, Edmonton):	(d)	455,334	467,190
Less current portion	(d)	12,169	11,546
Non-current portion		\$ 443,165	\$ 455,644

(a) ATB loan:

ATB loan was settled in full in January of 2019.

(b) CIBC loan (1010 mortgage):

CIBC \$10,000,000 loan facility is a non-revolving facility secured by a registered mortgage on the 1010 Center building in Calgary and is repayable on demand. As at year ended March 31, 2019, \$5,000,000 had been drawn representing Credit A of the facility. Without prejudice to the right of CIBC to request immediate repayment, repayment will be made over 25 years in monthly instalments of \$25,598, including interest, at the bank's prime rate less 0.15%, which was 3.71% for fiscal 2019. Interest expense of \$46,375 was incurred during the year and principal repaid was \$30,418. The loan balance of \$4,979,690 is repayable on demand, and as such is classified as a current liability. The principal amount due in the next fiscal year is \$124,530.

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Notes to Combined Financial Statements, page 7

Year ended March 31, 2019, with comparative information for 2018

8. Loans and borrowings (continued):

(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. The interest expense of \$30,225 was paid during the year. The principal amount due in the next year is \$38,127, which is included in the current portion of long-term loans and borrowings.

(d) CBWC loan (Neighbour Centre, 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 \$18,454 was incurred during the year. The principal amount due in the next year is \$12,169, which is included in the current portion of long-term loans and borrowings. The loan facility matures on September 1, 2022.

(e) Available borrowing:

At March 31, 2019, TMS had \$1 million (2018 – \$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, 2019, TMS had not drawn on this facility (2018 – \$nil).

(f) Scheduled repayments:

Annual scheduled repayment of loans and borrowings, are as follows:

	Amount
2020	\$ 174,826
2021	174,735
2022	181,201
2023	187,909
2024	221,743
Thereafter	5,420,160
	<u>\$ 6,360,574</u>

(g) Bank covenants:

On the non-revolving credit facility and real estate financing credit facility, TMS is required to comply with certain financial covenants. Financial covenants imposed by CIBC and BMO required the overall Debt Service Coverage Ratio (DSCR) to not fall below 1.15:1 and 1.25:1 respectively. TMS was not in compliance with these covenants at March 31, 2019, however, a waiver of the covenant violation was obtained from both CIBC and BMO. It is uncertain whether TMS will be in compliance with these covenants during the next fiscal year ending March 31, 2020.

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Notes to Combined Financial Statements, page 8

Year ended March 31, 2019, with comparative information for 2018

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:

	2019	2018
Balance, beginning of year	\$ 43,033,171	\$ 45,104,721
Contributions received (note a)	(307,833)	61,205
Contributed assets (net) (note b)	2,742,159	38,045
Contributions recognized as revenue	(1,924,828)	(2,170,800)
	<u>\$ 43,542,669</u>	<u>\$ 43,033,171</u>

(a) Contributions received:

Deferred capital contributions recognized as revenue are included in donations and government funding revenue on the statement of operations. Due to the sale of the 4th Street property, \$307,833 of the total \$1,175,794 funding received for the purpose of building affordable housing was recognized as revenue during the year.

(b) Contributed assets:

Contributed assets include buildings of \$3,172,282 contributed by New Life Community (note 6).

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:

	2019	2018
Capital assets (note 6)	\$ 61,248,093	\$ 60,003,233
Amounts financed by:		
Net working capital, including cash	2,168,372	3,627,580
Loans and borrowing	(6,360,574)	(5,721,373)
Deferred capital contributions	(43,542,668)	(43,033,171)
	<u>\$ 13,513,223</u>	<u>\$ 14,876,269</u>

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Notes to Combined Financial Statements, page 9

Year ended March 31, 2019, with comparative information for 2018

11. Investment in capital assets (continued):

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

	2019	2018
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions (note a)	\$ 2,232,611	\$ 2,170,800
Amortization of capital assets	(2,871,527)	(2,743,921)
	\$ (638,866)	\$ (573,121)

(a) Amortization of deferred capital contributions relates to two properties located in Kamloops, 1010 Center, 4th Street building, 102 and 106 properties on 11th Avenue, and 14th Street building located in Calgary.

	2019	2018
Net change in investment in capital assets:		
Capital expenditures	\$ 951,176	\$ 2,331,983
Contributed assets	3,456,480	-
Amounts financed by:		
Deferred capital contributions	(3,033,465)	(61,205)
Change in loans and borrowings	(639,201)	(1,108,808)
Change in restricted cash	(3,516)	-
Deficiency of revenue over expenses	(638,866)	(573,121)
Net change in working capital, including cash	(1,455,654)	(196,140)
	\$ (1,363,046)	\$ 392,709

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
2020	\$ 521,554
2021	470,078
2022	456,050
2023	429,245
2024	\$ 106,208

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Year ended March 31, 2019, with comparative information for 2018

12. Commitments and contingencies (continued):

(b) 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.

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:

	2019	2018
Donation revenue	\$ 433,902	\$ 105,078
Program expense	\$ 433,902	\$ 105,078

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.

(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.

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Year ended March 31, 2019, with comparative information for 2018

14. Financial risks and concentration of credit risk (continued):

(c) Credit risk (continued):

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 that related to the additional financing in place to support the construction of a new building.

15. Directors Remuneration:

No remuneration was paid to directors during the year ended March 31, 2019 (2018 – nil).

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

In accordance with 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:

	2019	2018
Gross contributions received, exclusive of government contributions	\$ 15,504,572	\$ 14,973,705
Total direct expenses incurred for soliciting contributions	2,804,841	2,757,429
Remuneration to employees whose principal duties involved fundraising	1,069,075	831,705
