Financial Statements of

BANFF HOUSING CORPORATION

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholder of the Banff Housing Corporation

Opinion

We have audited the financial statements of Banff Housing Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2018;
- the statements of operations for the year then ended;
- the statements of changes in net assets for the year then ended;
- the statements 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 present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations, its remeasurement gain and losses, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the 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 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 public sector accounting standards, 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.

Chartered Professional Accountants

April 17, 2019
Calgary, Canada

BANFF HOUSING CORPORATION

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash (note 2)	$ 1,013,517	$ 275,279
Accounts receivable (note 3, 10)	85,557	38,254
Prepaid expenses	620	–
	1,099,694	313,533
Tangible capital assets (notes 4 and 10)	13,065,223	1,469,033
Second mortgages receivable (note 6)	1,021,000	1,021,000
	$15,185,917	$ 2,803,566
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 2)	$ 650,000	$ 650,000
Due to Town Banff (note 10)	598,937	6,939
Accounts payable and accrued liabilities (note 7)	20,087	4,598
Tenant deposits	142,579	2,502
	1,411,602	664,039
Due to Town Banff (note 10)	11,453,500	–
Deferred revenue (note 6)	1,021,000	1,021,000
Asset retirement obligation (note 5)	45,900	45,900
	13,932,002	1,730,939
Net assets:		
Net assets invested in tangible capital assets	1,306,531	1,423,133
Unrestricted deficit	(52,616)	(350,506)
	1,253,915	1,072,627
Commitments (note 10 and note 11)		
Economic dependence (note 11)		
Subsequent event (note 11)		
	$15,185,917	$ 2,803,566

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:

____________________________________ Director

____________________________________ Director

BANFF HOUSING CORPORATION

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
General operations:		
Revenue:		
Fees	$ 92,373	$ 69,310
Interest	7,392	2,531
	99,765	71,841
Expenses:		
Wages, management fees and benefits	125,219	28,654
Amortization	116,602	13,962
Professional fees	12,250	5,211
Office supplies, postage and other	8,088	903
Advertising and promotion	4,741	245
Insurance	2,080	1,356
Telephone	2,001	445
Appraisals	–	1,450
Board initiatives	–	99
	270,981	52,325
(Deficiency) excess of revenues over expenses from general operations	(171,216)	19,516
Property rentals:		
Rental revenue	727,079	70,596
Operating expenses	(130,553)	(15,500)
Interest on Due to Town of Banff	(219,804)	–
Interest on bank indebtedness	(24,218)	(21,021)
Excess of revenues over expenses from property rentals	352,504	34,075
Excess of revenues over expenses	$ 181,288	$ 53,591

See accompanying notes to financial statements.

BANFF HOUSING CORPORATION

Statement of Changes in Net Assets

Year ended December 31, 2018, with comparative information for 2017

December 31, 2018	Invested in tangible capital assets	Internally restricted net assets	Unrestricted net assets (deficit)	2018
Balance, beginning of year	$ 1,423,133	$ –	$ (350,506)	$1,072,627
Acquisition of tangible capital assets	11,712,792	–	–	11,712,792
Total assets acquired using debt financing	(11,707,294)	–	–	(11,707,294)
Total assets acquired using cash	(5,498)	–	–	(5,498)
Excess (deficiency) of revenues over expenses (note 8)	(116,602)	–	297,890	181,288
	$ 1,306,531	$ –	$ (52,616)	$ 1,213,915

December 31, 2017	Invested in tangible capital assets	Internally restricted net assets	Unrestricted net assets (deficit)	2017
Balance, beginning of year	$ 1,437,095	$ –	$ (418,059)	$1,019,036
Acquisition of tangible capital assets	–	–	–	–
Excess (deficiency) of revenues over expenses (note 8)	(13,962)	–	67,553	53,591
	$ 1,423,133	$ –	$ (350,506)	$1,072,627

See accompanying notes to financial statements.

BANFF HOUSING CORPORATION

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	$ 181,288	$ 53,591
Items not affecting cash:		
Amortization	116,602	13,962
Accretion	–	–
Changes in non-cash working capital:		
Increase in accounts receivable	(47,303)	(16,544)
Increase in prepaid expenses	(620)	–
Increase (decrease) in amounts due to Town of Banff (note 10)	591,988	(6,985)
Increase (decrease) in accounts payable and accrued liabilities	15,489	(520)
Increase in tenant deposits	140,076	–
	743,735	43,504
Investing activities:		
Purchase of tangible capital assets	(5,497)	–
	(5,497)	
Financing activities:		
Repayment of bank indebtedness	–	(82)
Increase in cash	738,238	43,422
Cash, beginning of year	275,279	231,857
Cash, end of year	$ 1,013,517	$ 275,279

See accompanying notes to financial statements.

The Banff Housing Corporation (the "Corporation") was incorporated as a non-profit organization to provide value priced housing to residents of the Town of Banff, and as such is not subject to income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations.

(a) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted interest income is recognized as revenue when earned.

Property sales are recognized based on the completed contract method when ownership of each unit is transferred from the Corporation to each homeowner.

(b) Inventory:

Inventory consists of construction-in-progress, unallocated infrastructure costs, property held for resale, and land held for use in the Corporation's housing projects and is recorded at the lower of cost and net realizable value.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported 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. Management has not elected to carry any 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.

1. Significant accounting policies (continued):

(c) Financial instruments (continued):

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

Unless otherwise noted, it is the Board's opinion that the Corporation is not exposed to significant interest rate, currency, liquidity or credit risks arising from its financial instruments.

(d) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates include the valuation of accounts receivable, the estimated costs and applicability of the asset retirement obligation, the estimated useful lives of tangible capital assets and the final carrying value determination of the transfer of tangible capital assets. Actual results could differ from the estimates made by the Corporation as additional information becomes available in the future.

(e) Tangible capital assets:

Purchased tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. When a tangible capital asset no longer contributes to the Corporation's ability to provide services, its carrying amount is written down to its residual value.

The costs less residual value of the tangible capital assets are amortized over their estimated as follows:

Building	Declining balance	30 months
Affordable housing development	Declining balance	55 years
Access and utility rights	Straight-line	30 years
Condominiums	Declining balance	25 years
Landscaping	Declining balance	50 years
Vehicles	Declining balance	15 years
Bins	Declining balance	15 years
Computer equipment	Declining balance	5 years

1. Significant accounting policies (continued):

(f) Equity interest:

The Corporation does not record its equity interest upon the sale of the Corporation's property unless the Corporation sells all or any portion of the equity interest in the transaction (see note 9).

(g) Asset Retirement Obligation:

The Corporation recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it incurs a legal obligation associated with the retirement of tangible capital assets. Certain building assets contain some asbestos, and it is the Corporation's practice to, if necessary, remediate any asbestos upon disposal of a tangible capital building asset. The estimated fair value of an ARO is capitalized as part of the related tangible capital asset and depreciated on the same basis as the underlying asset. ARO is adjusted for the passage of time, which is recognized as accretion expense, and for revisions to the timing or the amount of the estimated liability. Actual costs incurred are charged against the ARO to the extent of the liability recorded. Differences between the actual costs incurred and the liability are recognized in the excess of revenues over expenses when remediation is completed.

2. Cash/bank indebtedness:

	2018	2017
Internally restricted cash (note 8)	$ –	$ –
Unrestricted cash	1,013,517	275,279
	$ 1,013,517	$ 275,279

Cash generates returns at the bank's prime rate minus 1.80% per annum (2017 – bank's prime rate minus 1.80%).

The Bank of Montreal has authorized a demand operating line of credit to the Corporation in the amount of $650,000 (2017 - $650,000), which includes an overdraft lending account of up to $345,000 (2017 – $350,000). The line of credit is guaranteed by the Town of Banff and bears interest at the bank's prime rate minus 0.5% per annum (2017 – bank's prime rate minus 0.5%). As at December 31, 2018 there was $650,000 (2017 - $650,000) drawn against the line of credit and $nil (2017 - $nil) in overdraft. Additionally, the Bank of Montreal has authorized commercial letters of credit up to a maximum of $300,000 (2017 - $300,000), and a corporate MasterCard to a maximum of $50,000 (2017 - $50,000). As of December 31, 2018, $2,404 was outstanding on the corporate MasterCard (2017 – $nil).

3. Accounts receivable:

	2018	2017
Amounts outstanding for one year or less	$ 59,667	$ 24,036
Amounts outstanding for more than one year	25,890	14,218
	$ 85,557	$ 38,254

4. Tangible capital assets:

	Cost	Accumulated depreciation	2018 Net book value	2017 Net book value
Land	$ 1,891,547	$ –	$ 1,891,547	$ 1,294,379
Building, including asset retirement costs	53,677	53,677	–	40
Condominiums	304,778	138,449	166,329	173,259
Computer equipment	3,706	2,622	1,084	1,355
Ti’nu building	9,759,903	88,726	9,671,177	–
Ti’nu building improvements	498,930	4,989	493,941	–
Ti’nu vehicles	45,485	1,516	43,969	–
Ti’nu access and utility rights	780,381	13,006	767,375	–
Bins	25,427	848	24,579	–
Furniture and fixtures	5,498	275	5,223	–
	$13,369,332	$ 304,108	$13,065,223	$ 1,469,033

On July 11, 2003, the Corporation assumed a lease agreement from Government of Canada for two condominium units. The lease is treated as capital in nature as it transferred substantially all the benefits and risks incident to ownership of the property to the Corporation. These contributed assets were recorded at their fair value of $280,000 on the date of assignment of the lease. Amortization has been recorded on these assets since July 11, 2003.

During the year, the Town of Banff transferred $11,707,294 in tangible capital assets to the Corporation (see note 11).

5. Asset retirement obligation:

At December 31, 2018, the estimated undiscounted asset retirement obligation was $45,900 (2017 – $45,900). This obligation will be settled based on the useful life of the related building asset. The obligation is fully realized; however, the retirement obligation liability will not be utilized for approximately five years. A discount rate of 2.25% (2017 – 2.25%) was used to calculate the fair value of the asset retirement obligation.

6. Second mortgages receivable/deferred revenue:

Deferred revenue arose from mortgages receivable with respect to the Middle Springs I housing development in the Town of Banff. The mortgages are registered against the titles of the properties but become due only when the initial owner ceases to reside in the Middle Springs I development. The full amount of the mortgages is recorded as non-current second mortgage receivable and deferred revenue. When a mortgage becomes due, the revenue is recognized.

During the year, the Corporation collected $nil (2017 – $ nil) towards second mortgages receivable.

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities as at December 31, 2018 are government remittances payable of $3,004 (2017 – $130) relating to federal sales taxes.

8. Internally restricted net assets:

During the year, the Corporation transferred $nil (2017 - $ nil) from internally restricted net assets to repay a portion of the Corporation's demand operating line of credit (note 2). The Corporation has a policy to internally restrict second mortgage revenue in excess of $30,000. During 2018, $nil of this revenue (2017 - $ nil) was restricted internally.

9. Investment – equity interest in housing units at cost:

The purpose of the Corporation is to provide value priced housing to long-term residents of the Town of Banff. The Corporation attempts to meet this objective by developing and selling housing units to homeowners at the actual costs required to construct the housing units. The Corporation retains an equity interest in each unit that it sells. This equity interest is determined at the time each unit is initially sold to each homeowner and is calculated as the difference between the fair market value of the unit (determined by an independent appraiser) and the sale price of the unit when it is initially sold to each homeowner.

As at December 31, 2018, there were 183 properties (2017 – 183) in the Corporation's value priced housing portfolio, and the equity interest ranged from 0% to 35% of the fair market value of each property.

This equity interest is not recognized in the financial statements as the timing and amount of consideration that could eventually be realized by the Corporation for this equity interest is not determinable. However, per the terms of its sublease agreement with sub lessees (homeowners) the Corporation can realize any/all of its equity interest upon any sublease disposition of a Corporation property (sale by sub lessee) if it so chooses.

During 2018 the Corporation acquired no properties (2017 - no properties were acquired) and sold no properties (2017 - no properties were sold).

10. Due to the Town of Banff:

	2018	2017
Due for operations	$ 145,319	$ 6,939
Due for interest on borrowings for Ti'nu Development	199,824	
Due for Ti'nu Development	11,707,294	–
	12,052,437	6,939
Less: Current portion	598,937	6,939
Long-term Due to Banff	$ 11,453,000	$ –

As at December 31, 2018 there was an amount of $12,052,437 (2017 - $6,939) payable to the Town of Banff relating mainly to the construction of condominium units on 547 Coyote Lane (the "Ti'nu Development"). Refer to note 11 for further details.

The amount owing to the Town of Banff for the Ti'nu Development is repayable with principal and interest over 26 years with a maturity date in 2026, which is consistent with the debt amount and repayment terms incurred by the Town of Banff from the Alberta Capital Finance Authority ("ACFA loans"). At December 31, 2018, there is no formal agreement in place and no set repayment terms; however, the Corporation has agreed to pay interest equal to the interest payment incurred by the Town of Banff in relation to the ACFA loans. Interest incurred by the Town of Banff on the ACFA loans during the year ended December 31, 2018 is 3.416% per annum. There are no demand features to this loan.

10. Due to the Town of Banff (continued):

Principal and interest repayments agreed to are as follows:

	Principal	Interest	Total
2018	$ 100,789	$ 199,824	$ 300,613
2019	253,794	396,206	650,000
2020	262,463	387,537	650,000
2021	271,429	378,571	650,000
2022	280,700	369,300	650,000
Thereafter	10,538,119	5,061,881	15,600,000
	$ 11,707,294	$ 6,793,319	$ 18,500,613

11. Related party transactions and economic dependence:

There is an agreement between the Town of Banff and the Corporation such that the Town of Banff, which is the Corporation's sole shareholder, administers the Corporation's payroll function. The Corporation used office space owned by the Town of Banff. These services were provided from the Town of Banff to the Corporation at no charge.

The ability of the Corporation to continue as a going concern depends upon its ability to continue to receive funding from the Town of Banff.

In 2018, the Town of Banff completed construction of the condominium units on 547 Coyote Lane (the "Ti'nu Development"). The development consists of one bedroom, two bedroom, and studio apartments.

On July 1, 2018, the operation of the Ti'nu Development commenced. On that day, the Town of Banff transferred the 131-unit affordable housing development to the Banff Housing Corporation. Details of the Ti'nu Development assets transferred are as follows:

	2018
Land	597,168
Building	9,759,903
Building improvements	498,930
Vehicles	45,485
Access and utility rights	780,381
Bins	25,427
	$11,707,294

The amount of the assets transferred represents the carrying value of the asset, which is equal to the Town of Banff's contribution towards the capital cost of development prior to the transfer to the Banff Housing Corporation.

11. Related party transactions and economic dependence (continued):

The Ti'nu development is to be co-owned with the Alberta Social Housing Corporation ("ASHC"). Subsequent to year-end, an agreement was signed between the ASHC and the Corporation, indicating that each party holds a 50% ownership interest in the leasehold regardless of actual contribution of each party. The Corporation is the operator of the Ti'nu Development; however, the ASHC shall be consulted on development and management responsibilities, and will require annual audited financials to be submitted to the ASHC.

The final cost of the building transferred to the Corporation is based on management's best estimate, and is subject to final adjustments on the transaction.