

Financial Statements of

**HEARTHSTONE COMMUNITY
GROUP INC**

March 31, 2017



Deloitte LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: (204) 942-0051
Fax: (204) 947-9390
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Members of
Hearthstone Community Group Inc.

We have audited the accompanying financial statements of Hearthstone Community Group Inc., which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in net assets and cash flows for the year then ended, and the notes to the financial statements. These financial statements have been prepared to comply with the Province of Manitoba Department of Family Services Financial Reporting Requirements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting requirements 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hearthstone Community Group Inc. as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with the Province of Manitoba Department of Family Services Financial Reporting Requirements.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to the significant accounting policies, which describes the basis of accounting. The financial statements are prepared to assist Hearthstone Community Group Inc. to comply with the reporting provisions of the Province of Manitoba Department of Family Services Financial Reporting Requirements referred to above. As a result, the financial statements may not be used by parties other than the Hearthstone Community Group Inc. and the Province of Manitoba Department of Family Services.

Chartered Professional Accountants

September 25, 2017
Winnipeg, Manitoba

TABLE OF CONTENTS

	<u>Page</u>
Statement of Operations	1
Statement of Changes in Net Assets	2
Statement of Financial Position	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 9
Schedule of Departmental Operations	10

HEARTHSTONE COMMUNITY GROUP INC

Statement of Operations

Year Ended March 31, 2017

	2017	2016
REVENUE		
Province of Manitoba - residential services	\$ 1,814,348	\$ 1,784,872
Province of Manitoba - day services	299,148	209,270
Province of Manitoba - transportation	47,296	32,658
Province of Manitoba - administration	14,121	3,109
Province of Manitoba - respite care	5,939	12,700
Province of Manitoba - pension and benefits	23,904	26,715
Province of Manitoba - wage enhancement	93,826	61,873
Trustee	14,981	19,048
Resident contributions	6,777	7,591
Province of British Columbia	-	2,110
Lord Selkirk School Division	4,692	-
Fundraising	1,200	100
Amortization of deferred contributions	25,150	8,341
Other income	3,581	5,000
	2,354,963	2,173,387
EXPENSES		
Advertising	138	33
Amortization	78,989	53,103
Cable	5,813	5,970
Day program	17,886	11,441
Directors	2,397	2,550
Food	77,827	81,916
Furnishings	57,706	29,834
GST expense	12,942	12,539
Insurance	20,347	19,511
Interest on mortgage	51,622	23,473
Loss on disposal of capital assets	5,383	-
Membership fees	725	100
Office, medical, and house supplies	16,984	12,276
Professional fees	48,121	96,404
Property taxes	21,094	19,598
Rent	18,959	19,265
Repairs and maintenance	32,696	47,067
Respite charges	5,558	2,920
Salaries and benefits	1,512,494	1,426,628
Summer vacation	5,143	4,605
Training	17,131	4,936
Transportation	26,770	21,194
Utilities	51,911	45,999
Van	6,644	9,175
	2,095,280	1,950,537
EXCESS OF REVENUE OVER EXPENSES	\$ 259,683	\$ 222,850

HEARTHSTONE COMMUNITY GROUP INC
Statement of Changes in Net Assets
Year Ended March 31, 2017

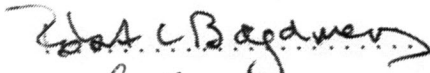
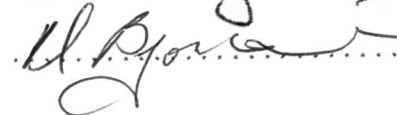
	Invested capital assets	Unrestricted net assets	Total 2017
BALANCE, BEGINNING OF YEAR	\$ 938,761	\$ 242,010	\$ 1,180,771
Excess of revenues over expenses	-	259,683	259,683
Allocation of amortization to capital assets	(78,989)	78,989	-
Appropriation of unrestricted net assets to purchase capital assets	980,464	(980,464)	-
Appropriation of mortgage proceeds to purchase capital assets	(846,563)	846,563	-
Appropriation of unrestricted net assets for mortgage payments	63,551	(63,551)	-
Appropriation of unrestricted net assets for capital lease obligations payments	19,236	(19,236)	-
BALANCE, END OF YEAR	\$ 1,076,460	\$ 363,994	\$ 1,440,454

	Invested in capital assets	Unrestricted net assets	Total 2016
BALANCE, BEGINNING OF YEAR	\$ 890,095	\$ 67,826	\$ 957,921
Excess of revenues over expenses	-	222,850	222,850
Allocation of amortization to capital assets	(53,103)	53,103	-
Appropriation of unrestricted net assets to purchase capital assets	23,188	(23,188)	-
Appropriation of investment in capital assets mortgage proceeds	(3,550)	3,550	-
Appropriation of unrestricted net assets for mortgage payments	62,058	(62,058)	-
Appropriation of unrestricted net assets for capital lease obligations payments	20,073	(20,073)	-
BALANCE, END OF YEAR	\$ 938,761	\$ 242,010	\$ 1,180,771

HEARTHSTONE COMMUNITY GROUP INC
Statement of Financial Position
March 31, 2017

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT		
Cash	\$ 318,274	\$ 201,519
Term deposit (Note 4)	13,613	13,365
Accounts receivable	230,733	190,629
Prepaid expenses and deposits	39,868	79,549
	<u>602,488</u>	<u>485,062</u>
	2,505,480	1,571,138
CAPITAL ASSETS (Note 5)	<u>\$ 3,107,968</u>	<u>\$ 2,056,200</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 49,228	\$ 70,707
Government remittances payable	14,808	14,809
Security deposit payable	1,063	1,063
Current portion of mortgages payable (Note 6)	94,440	63,415
Current portion of obligations under capital lease (Note 7)	23,347	15,455
Working capital advance (Note 8)	38,023	38,023
	<u>220,909</u>	<u>203,472</u>
	1,252,622	500,635
LONG-TERM PORTION OF MORTGAGES PAYABLE (Note 6)	<u>1,252,622</u>	<u>500,635</u>
OBLIGATIONS UNDER CAPITAL LEASE (Note 7)	<u>64,994</u>	<u>52,872</u>
DEFERRED CONTRIBUTIONS (Note 9)	<u>128,989</u>	<u>118,450</u>
	<u>1,667,514</u>	<u>875,429</u>
NET ASSETS		
Investment in capital assets	1,076,460	938,761
Unrestricted net assets	363,994	242,010
	<u>1,440,454</u>	<u>1,180,771</u>
	<u>\$ 3,107,968</u>	<u>\$ 2,056,200</u>

APPROVED BY THE BOARD

 Director
 Director

HEARTHSTONE COMMUNITY GROUP INC
Statement of Cash Flows
Year Ended March 31, 2017

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 259,683	\$ 222,850
Items not affecting cash:		
Amortization	78,989	53,103
Amortization of deferred contributions	(25,150)	(8,341)
Loss on disposal of capital assets	5,383	-
	<u>318,905</u>	<u>267,612</u>
Changes in non-cash operating working capital items:		
Accounts receivable	(40,104)	(4,600)
Prepaid expenses and deposits	39,681	(66,258)
Accounts payable	(21,479)	1,070
Government remittances payable	(1)	4,957
	<u>297,002</u>	<u>202,781</u>
INVESTING ACTIVITIES		
Term deposit, net	(248)	-
Purchase of capital assets	(980,464)	(23,188)
Proceeds on disposal of capital assets	1,000	-
	<u>(979,712)</u>	<u>(23,188)</u>
FINANCING ACTIVITIES		
Repayment of mortgages payable	(63,551)	(62,058)
Proceeds from mortgages payable	846,563	3,550
Repayment of capital lease obligations	(19,236)	(20,073)
Proceeds from deferred contributions	35,689	2,500
	<u>799,465</u>	<u>(76,081)</u>
NET INCREASE IN CASH POSITION	116,755	103,512
CASH POSITION, BEGINNING OF YEAR	201,519	98,007
CASH POSITION, END OF YEAR	\$ 318,274	\$ 201,519
Cash consists of:		
Sunova Credit Union Chequing	\$ 218,269	\$ 201,514
Sunova Credit Union Savings	100,000	-
Sunova Credit Union Share	5	5
	<u>\$ 318,274</u>	<u>\$ 201,519</u>

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2017

1. DESCRIPTION OF BUSINESS

Hearthstone Community Group Inc. (the "Organization") was incorporated under the Corporations Act of Manitoba. The Organization is dedicated to providing housing and independent living opportunities to persons with disabilities. The organization is a non-profit organization for the purposes of the Income Tax Act and accordingly is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Province of Manitoba Department of Family Services Financial Reporting Requirements and include the following significant accounting policies:

a) *Basis of accounting*

The financial statements have been prepared in accordance with the accounting policies as requested by the Province of Manitoba Department of Family Services Financial Reporting Requirements. Therefore, these financial statements are not prepared in accordance with Canadian accounting standards for not-for-profit organizations, but rather follow the accounting standards by the Province of Manitoba Department of Family Services. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for not-for-profit organizations because:

Capital assets

Actual costs related to capital asset replacement are recognized as an expense.

b) *Net assets*

The unrestricted net assets of the Organization account for all revenue and expenses relating to the operations of the Organization. The Organization has internally restricted net assets to provide for the future costs of discipline hearings and legislative amendments, significant capital expenditures, supplemental employee costs, special projects and development programs.

c) *Revenue recognition*

The Organization follows the deferral method of accounting for contributions whereby restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. All other contributions are reported as revenue of the period in which they are received or may be considered receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Capital assets

Capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized over their estimated useful lives at the following rates using the declining balance method:

Buildings	4%
Vehicles	15%
Computer equipment	45%
Furniture and fixtures	20%
Equipment	20%

e) Financial instruments

The Organizations financial assets and liabilities consist of cash, term deposit accounts and receivables, and accounts payable. The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures all financial assets and liabilities at fair value.

Interest risk

The Organization is subject to interest rate risk. The Organization mitigates this risk by fixing the interest rate on the mortgages payable.

f) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Key components of the financial statements requiring management to make estimates include the provision for doubtful accounts in respect of accounts receivable, and the useful lives of capital assets. Actual results could differ from these estimates.

3. COMMERCIAL LINE OF CREDIT

The Organization has a line of credit to a maximum of \$25,000 from Sunova Credit Union. As at March 31, 2017, the Organization has not drawn on its line of credit.

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2017

4. TERM DEPOSITS

	<u>2017</u>	<u>2016</u>
Guaranteed investment certificates, maturing June 22, 2017, including accrued interest at 0.6%	\$ 13,613	\$ 13,365

5. CAPITAL ASSETS

	<u>2017</u>			<u>2016</u>
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 311,462	\$ -	\$ 311,462	\$ 311,462
Buildings	2,316,515	292,053	2,024,462	1,146,159
Vehicles	-	-	-	6,383
Computer equipment	4,294	4,287	7	13
Furniture and fixtures	16,974	11,552	5,422	6,777
Equipment	53,530	11,240	42,290	10,727
Vehicles under capital lease	129,421	7,584	121,837	89,617
	<u>\$ 2,832,196</u>	<u>\$ 326,716</u>	<u>\$ 2,505,480</u>	<u>\$ 1,571,138</u>

6. MORTGAGES PAYABLE

	<u>2017</u>	<u>2016</u>
Sunova Credit Union mortgage bearing interest a 3.99% per annum, repayable in bi-weekly blended payments of \$1,500. The mortgage is secured by 1 st charge mortgage over land and building at 230 Heap Ave, 224 Vaughn Ave, 137 Reid Ave., and 18 Outhwaite Drive in Selkirk, Manitoba, a promissory note in the amount of \$431,267 and General Security Agreement with floating charge over all assets of the Organization	\$ 339,727	\$ 361,649
Sunova Credit Union mortgage bearing interest at 3.99% per annum, repayable in bi-weekly blended payments of \$1,926. The mortgage is secured by a registered mortgage for \$500,000 over 209 Superior Ave. in Selkirk, Manitoba, a promissory note in the amount of \$305,000 with scheduled to mortgage, General Security Agreement with a 1 st charge over all present and future assets, assignment of Fire Insurance over 209 Superior Ave with Sunova Credit Union being shown as 1 st loss payable, assignment of rents and leases and property tax on annual basis to be provided	157,222	198,851

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2017

6. MORTGAGES PAYABLE (continued)

Sunova Credit Union mortgage bearing interest at 3.99% per annum, repayable in bi-weekly payments of \$2,371. The mortgage is secured by a registered mortgage for \$2,000,000 over the six properties registered to Hearthstone Community Group, a promissory note in the amount of \$850,000, General Security Agreement with a 1st charge over all present and future assets, and assignment of rents and leases.

	850,113	3,550
	1,347,062	564,050
Less: current portion	(94,440)	(63,415)
	\$ 1,252,622	\$ 500,635

The scheduled principal payments for the next five years are due as follows:

2018	\$ 94,440
2019	103,836
2020	106,915
2021	78,589
2022	63,412

7. OBLIGATIONS UNDER CAPITAL LEASE

The following schedule details the future minimum lease payments relating to the capital leases together with the balance of the obligations:

2018	\$ 26,702
2019	26,702
2020	26,702
2021	11,938
2022	2,246
	94,290
Less: amount representing interest	(5,949)
	88,341
Less: current portion	(23,347)
	\$ 64,994

The obligations under capital lease are secured by the assets being leased.

8. WORKING CAPITAL ADVANCE

The Province of Manitoba has provided a Continuing Capital Advance to the Organization of \$38,023 (2016 - \$38,023). This advance bears no interest or fixed terms of repayment.

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2017

9. DEFERRED CONTRIBUTIONS

The Organization received grants to help cover costs for building improvements, equipment, and furnishings purchases. Where capital assets are purchased, these grants will be deferred and amortized at the same rates as the related capital assets. Where expended amounts relate to the purchase of furnishings, grants are recognized to revenue in the period in which the expenditure was incurred.

Details related to deferred contributions are as follows:

	<u>2017</u>	<u>2016</u>
Selkirk and Community District Foundation	\$ 13,818	\$ 14,394
Manitoba Community Services Council Inc.	12,096	15,120
Province of Manitoba	44,976	46,850
The Thomas Sill Foundation Inc.	18,063	18,816
South Beach Casino and Resort	7,060	4,802
Heart and Stroke Foundation of Canada	1,440	1,800
Manitoba Marathon	1,615	1,615
Farm Credit Canada	14,451	15,053
Community Places Program	15,470	-
	<u>\$ 128,989</u>	<u>\$ 118,450</u>

Current year additions and amortization are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 118,450	\$ 124,291
Contributions received	35,689	2,500
Amortization of deferred contributions	(25,150)	(8,341)
Balance, end of year	<u>\$ 128,989</u>	<u>\$ 118,450</u>

10. ECONOMIC DEPENDENCE

The Organization is economically dependent on the Province of Manitoba's government funding under the Purchase Service Agreement.

11. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

HEARTHSTONE COMMUNITY GROUP INC.
Schedule of Departmental Operations
Year ended March 31, 2017

	McLean	Olthwaite	Reid	South		Sutherland	Vaughn	Heap	Glen		Day	Departmental		Non-Provincial	Total	Total
				Dominique					Hrautuk		Program	Operations	Administration	Funding	2017	2016
Revenue																
Province of Manitoba - residential services	\$ 204,641	\$ 319,504	\$ 238,559	\$ 172,872	\$ 256,126	\$ 194,530	\$ 228,408	\$ 199,708	\$ -	\$ -	\$ 298,792	\$ 1,814,348	\$ -	\$ -	\$ 1,814,348	\$ 1,784,872
Province of Manitoba - day services	-	-	356	-	-	-	-	-	-	-	298,792	299,148	-	-	299,148	209,270
Province of Manitoba - transportation	-	-	-	-	-	-	-	-	-	-	47,296	47,296	-	-	47,296	32,658
Province of Manitoba - administration	-	-	-	-	-	-	-	-	-	-	14,121	14,121	-	-	14,121	3,109
Province of Manitoba - respite care	2,616	2,616	2,953	1,189	3,329	237	1,553	237	237	5,939	5,939	5,939	-	5,939	12,700	
Province of Manitoba - pension and benefits	6,430	19,132	24,547	9,932	13,016	10,286	8,328	2,155	-	-	3,329	17,959	-	-	23,904	26,715
Province of Manitoba - wage enhancement	-	-	14,981	-	-	-	-	-	-	-	-	93,826	-	-	93,826	61,873
Trustee	-	-	14,981	-	-	-	-	-	-	-	-	14,981	-	-	14,981	19,048
Resident Contributions	655	1,133	-	450	1,135	805	1,001	180	-	-	290	6,777	-	-	6,777	7,591
Province of British Columbia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,110
Lord Selkirk School Division	-	-	-	-	-	-	-	-	-	-	4,692	4,692	-	-	4,692	-
Fundraising	-	-	-	-	-	-	-	-	500	-	-	500	-	-	500	100
Amortization of deferred contributions	-	-	-	-	-	-	-	-	6,000	-	-	6,000	-	-	6,000	8,341
Other income	-	200	-	100	100	100	100	100	100	100	100	800	333	2,448	5,000	
	214,342	342,585	282,424	184,543	273,706	205,958	239,390	208,880	374,559	2,326,387	6,278	22,298	2,354,963	2,173,387		
Expenses																
Advertising	112	2,843	2,326	1,160	96	3,581	6,732	16,536	1,873	35,259	43,730	138	78,989	53,103	33	
Amortization	783	980	821	746	711	721	939	112	839	5,813	939	5,813	5,813	5,970		
Cable	394	624	619	594	665	445	787	68	4,657	8,853	9,033	17,886	11,441	2,550		
Day Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	77,827	81,916
Directors expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,397	2,580
Food	10,050	12,786	8,092	6,172	11,252	7,143	9,854	5,381	6,109	76,839	988	2,773	57,706	29,834	29,834	
Furnishings	-	427	390	194	1,875	946	3,279	45,192	2,630	54,933	2,283	2,283	12,942	886	12,942	19,511
GST Expense	327	646	542	580	522	528	715	3,142	9,773	15,147	3,996	15,147	5,200	20,347	20,347	
Insurance	499	1,888	2,096	1,230	672	1,768	1,526	1,472	7,939	47,226	4,396	51,622	5,383	51,622	23,473	
Interest on mortgage	-	1,550	2,480	-	-	4,495	6,975	23,787	-	-	-	-	-	-	5,383	-
Loss on disposal of capital assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	725	100
Membership fees	907	1,197	1,159	743	816	716	969	2,360	2,188	11,055	5,929	16,984	16,984	12,276		
Office, medical, and house supplies	1,505	1,246	583	1,216	1,246	1,376	1,246	4,237	4,280	16,935	21,424	48,121	48,121	96,404		
Professional fees	-	2,694	3,152	-	-	3,186	3,382	1,276	3,702	17,392	3,702	21,094	19,588	19,588		
Property taxes	4,051	-	-	2,940	11,818	2,745	4,342	150	18,959	18,959	3,024	18,959	18,959	19,265		
Rent	1,418	2,860	1,652	3,224	1,161	2,745	4,342	1,112	6,622	25,136	3,024	32,696	47,067	47,067		
Repairs and maintenance	128,283	177,447	189,353	142,946	157,249	138,433	155,672	88,141	6,622	1,363,387	149,107	1,512,494	1,426,628	1,426,628		
Respite charges	-	254	362	-	3,650	350	165	-	362	5,143	-	5,143	5,143	4,605		
Salaries and benefits	1,699	1,674	1,205	1,674	1,674	1,674	1,674	889	2,244	14,466	2,502	17,131	17,131	4,936		
Summer vacation	-	2,855	1,060	2,613	931	1,461	2,093	961	12,485	24,746	2,024	28,770	28,770	21,194		
Training	857	2,893	5,056	4,603	4,717	4,663	4,919	5,119	6,419	44,464	7,202	51,911	45,999	45,999		
Utilities	2,893	6,075	-	-	-	-	-	-	6,644	6,644	-	6,644	6,644	9,175		
Van expenses	153,778	217,476	220,948	170,535	199,055	174,231	205,318	199,785	266,592	1,807,718	266,577	2,095,280	1,930,537	1,930,537		
OPERATING SURPLUS (DEFICIT)	60,564	125,109	61,476	14,008	74,651	31,727	34,072	9,095	107,967	518,669	(260,299)	1,313	259,683	222,850		
Allocation from administration	(24,492)	(33,878)	(36,151)	(27,272)	(30,022)	(26,430)	(29,721)	(16,828)	(35,504)	(260,299)	260,299	-	-	-		
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUE)	\$ 36,072	\$ 91,231	\$ 25,325	\$ (13,264)	\$ 44,629	\$ 5,297	\$ 4,351	\$ (7,733)	\$ 72,463	\$ 258,370	\$ -	\$ 1,313	\$ 259,683	\$ 222,850		