

Financial Statements of

**HEARTHSTONE COMMUNITY
GROUP INC**

March 31, 2018



INDEPENDENT AUDITOR'S REPORT

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

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

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, 2018 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, 2018 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 20, 2018
Winnipeg, Manitoba

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HEARTHSTONE COMMUNITY GROUP INC

Statement of Operations

Year Ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Province of Manitoba - residential services	\$ 1,771,412	\$ 1,814,348
Province of Manitoba - day services	377,160	299,148
Province of Manitoba - transportation	50,715	47,296
Province of Manitoba - administration	16,314	14,121
Province of Manitoba - respite care	-	5,939
Province of Manitoba - pension and benefits	36,524	23,904
Province of Manitoba - wage enhancement	110,290	93,826
Trustee	-	14,981
Resident contributions	2,607	6,777
Lord Selkirk School Division	2,041	4,692
Fundraising	3,056	1,200
Amortization of deferred contributions	15,635	25,150
Other income	3,647	3,581
	<u>2,389,401</u>	<u>2,354,963</u>
EXPENSES		
Advertising	242	138
Amortization	128,300	78,989
Cable	5,647	5,813
Day program	18,717	17,886
Directors	2,155	2,397
Food	92,969	77,827
Fundraising	710	-
Furnishings	46,963	57,706
GST expense	8,072	12,942
Insurance	17,396	20,347
Interest on mortgage	61,562	51,622
Loss on disposal of capital assets	13,244	5,383
Membership fees	944	725
Office, medical, and house supplies	20,685	16,984
Professional fees	53,232	48,121
Property taxes	21,730	21,094
Rent	17,363	18,959
Repairs and maintenance	139,035	32,696
Respite charges	-	5,558
Salaries and benefits	1,561,134	1,512,494
Summer vacation	3,099	5,143
Training	11,227	17,131
Transportation	26,376	26,770
Utilities	57,058	51,911
Van	12,215	6,644
	<u>2,320,075</u>	<u>2,095,280</u>
EXCESS OF REVENUE OVER EXPENSES	\$ 69,326	\$ 259,683

HEARTHSTONE COMMUNITY GROUP INC
Statement of Changes in Net Assets
Year Ended March 31, 2018

	Invested capital assets	Unrestricted net assets	Total 2018
BALANCE, BEGINNING OF YEAR	\$ 1,076,460	\$ 363,994	\$ 1,440,454
Excess of revenues over expenses	-	69,326	69,326
Allocation of amortization to capital assets	(128,300)	128,300	-
Appropriation of unrestricted net assets to purchase capital assets	344,486	(344,486)	-
Appropriation of mortgage proceeds to purchase capital assets	(426,967)	426,967	-
Appropriation of unrestricted net assets for mortgage payments	221,799	(221,799)	-
Appropriation of unrestricted net assets for capital lease obligations payments	22,695	(22,695)	-
BALANCE, END OF YEAR	\$ 1,110,173	\$ 399,607	\$ 1,509,780

	Invested in 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 investment in capital assets mortgage proceeds	(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

HEARTHSTONE COMMUNITY GROUP INC

Statement of Financial Position

March 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 345,128	\$ 318,274
Term deposit (Note 4)	13,768	13,613
Accounts receivable	266,959	230,733
Prepaid expenses and deposits	4,642	39,868
	630,497	602,488
CAPITAL ASSETS (Note 5)	2,708,422	2,505,480
	\$ 3,338,919	\$ 3,107,968
LIABILITIES		
CURRENT		
Accounts payable	\$ 59,043	\$ 49,228
Government remittances payable	14,808	14,808
Security deposit payable	1,063	1,063
Current portion of mortgages payable (Note 6)	94,010	94,440
Current portion of obligations under capital lease (Note 7)	24,358	23,347
Working capital advance (Note 8)	-	38,023
	193,282	220,909
LONG-TERM PORTION OF MORTGAGES PAYABLE (Note 6)	1,458,220	1,252,622
OBLIGATIONS UNDER CAPITAL LEASE (Note 7)	41,288	64,994
DEFERRED CONTRIBUTIONS (Note 9)	136,349	128,989
	1,829,139	1,667,514
NET ASSETS		
Investment in capital assets	1,110,173	1,076,460
Unrestricted net assets	399,607	363,994
	1,509,780	1,440,454
	\$ 3,338,919	\$ 3,107,968

APPROVED BY THE BOARD

..... Director

..... Director

HEARTHSTONE COMMUNITY GROUP INC

Statement of Cash Flows

Year Ended March 31, 2018

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 69,326	\$ 259,683
Items not affecting cash:		
Amortization	128,300	78,989
Amortization of deferred contributions	(15,635)	(25,150)
Loss on disposal of capital assets	13,244	5,383
	195,235	318,905
Changes in non-cash operating working capital items:		
Accounts receivable	(36,226)	(40,104)
Prepaid expenses and deposits	35,226	39,681
Accounts payable	9,815	(21,479)
Government remittances payable	-	(1)
	204,050	297,002
INVESTING ACTIVITIES		
Term deposit, net	(155)	(248)
Purchase of capital assets	(344,486)	(980,464)
Proceeds on disposal of capital assets	-	1,000
	(344,641)	(979,712)
FINANCING ACTIVITIES		
Repayment of mortgages payable	(221,799)	(63,551)
Proceeds from mortgages payable	426,967	846,563
Repayment of capital lease obligations	(22,695)	(19,236)
Proceeds from deferred contributions	22,995	35,689
Repayment of working capital advances payable	(38,023)	-
	167,445	799,465
NET INCREASE IN CASH POSITION	26,854	116,755
CASH POSITION, BEGINNING OF YEAR	318,274	201,519
CASH POSITION, END OF YEAR	\$ 345,128	\$ 318,274
Cash consists of:		
Sunova Credit Union Chequing	\$ 92,228	\$ 218,269
Sunova Credit Union Savings	252,895	100,000
Sunova Credit Union Share	5	5
	\$ 345,128	\$ 318,274

HEARTHSTONE COMMUNITY GROUP INC.

Notes to the Financial Statements

March 31, 2018

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, 2018

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

e) Financial instruments

The Organization's 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, 2018, the Organization has not drawn on its line of credit.

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2018

4. TERM DEPOSITS

	<u>2018</u>	<u>2017</u>
Guaranteed investment certificates, maturing June 22, 2018, including accrued interest at 2.6%	\$ 13,768	\$ 13,613

5. CAPITAL ASSETS

	<u>2018</u>			<u>2017</u>
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 311,462	\$ -	\$ 311,462	311,462
Buildings	2,582,327	362,583	2,219,744	2,024,462
Computer equipment	4,294	4,288	6	7
Furniture and fixtures	16,974	12,620	4,354	5,422
Equipment	99,701	24,315	75,386	42,290
Vehicles under capital lease	129,421	31,951	97,470	121,837
	<u>\$ 3,144,179</u>	<u>\$ 435,757</u>	<u>\$ 2,708,422</u>	<u>2,505,480</u>

6. MORTGAGES PAYABLE

	<u>2018</u>	<u>2017</u>
Sunova Credit Union mortgage bearing interest a 3.99% per annum, repayable in bi-weekly blended payments of \$1,500, maturing December 28, 2022. 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 \$431,267 and General Security Agreement with floating charge over all assets of the Organization and assignment of rents and leases to be provided	\$ 312,731	\$ 339,727
Sunova Credit Union mortgage bearing interest at 3.99% per annum, repayable in bi-weekly blended payments of \$2,000, maturing December 28, 2022. 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 \$426,967 with scheduled to mortgage, General Security Agreement with a 1 st charge over all present and future assets, and assignment of rents and leases to be provided	412,713	157,222

HEARTHSTONE COMMUNITY GROUP INC.
Notes to the Financial Statements
March 31, 2018

6. MORTGAGES PAYABLE (continued)

Sunova Credit Union mortgage bearing interest at 3.99% per annum, repayable in bi-weekly payments of \$2,371, maturing December 28, 2022.

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, a Corporate Borrowing Resolution authorize the borrowing of \$850,000, assignment of fire insurance on 1st Mapleton Street in Selkirk Manitoba, General Security Agreement with a 1st charge over all present and future assets, and assignment of rents and leases.

	826,786	850,113
	1,552,230	1,347,062
Less: current portion	(94,010)	(94,440)
	\$ 1,458,220	\$ 1,252,622

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

2019	\$ 94,010
2020	96,265
2021	100,181
2022	107,197
2023	1,154,577

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:

2019	\$ 26,702
2020	26,702
2021	11,938
2022	2,248
	67,590
Less: amount representing interest	(1,944)
	65,646
Less: current portion	(24,358)
	\$ 41,288

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

HEARTHSTONE COMMUNITY GROUP INC.

Notes to the Financial Statements

March 31, 2018

8. WORKING CAPITAL ADVANCE

The Province of Manitoba had provided a Continuing Capital Advance to the Organization of \$38,023. This advance bore no interest or fixed terms of repayment. This amount was repaid during the year.

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>2018</u>	<u>2017</u>
Selkirk and Community District Foundation	\$ 21,182	13,818
Manitoba Community Services Council Inc.	18,857	12,096
Province of Manitoba	43,177	44,976
The Thomas Sill Foundation Inc.	17,341	18,063
South Beach Casino and Resort	6,778	7,060
Heart and Stroke Foundation of Canada	1,152	1,440
Manitoba Marathon	1,615	1,615
Farm Credit Canada	13,873	14,451
Community Places Program	12,374	15,470
	<u>\$ 136,349</u>	<u>128,989</u>

Current year additions and amortization are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 128,989	\$ 118,450
Contributions received	22,995	35,689
Amortization of deferred contributions	(15,635)	(25,150)
Balance, end of year	<u>\$ 136,349</u>	<u>\$ 128,989</u>

10. ECONOMIC DEPENDENCE

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

HEARTHSTONE COMMUNITY GROUP INC.
Schedule of Departmental Operations
Year ended March 31, 2018

	McLean	Outhwaite	Reid	South Dominique	Sutherland	Vaughn	Heap	Glen Hnatiuk	Day Program	Total Departmental Operations	Administration	Pet Services	Non-Provincial Funding	Total 2018	Total 2017
Revenue															
Province of Manitoba - residential services	\$ 205,019	\$ 245,353	\$ -	\$ 87,782	\$ 248,337	\$ 194,890	\$ 249,519	\$ 540,512	\$ -	\$ 1,771,412	\$ -	\$ -	\$ -	\$ 1,771,412	\$ 1,814,348
Province of Manitoba - day services	-	-	-	-	-	-	-	-	377,160	377,160	-	-	-	377,160	299,148
Province of Manitoba - transportation	-	-	-	-	-	-	-	-	50,715	50,715	-	-	-	50,715	47,296
Province of Manitoba - administration	-	-	-	-	-	-	-	-	16,314	16,314	-	-	-	16,314	14,121
Province of Manitoba - respite care	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,939
Province of Manitoba - pension and benefits	4,182	2,804	-	1,563	5,143	1,864	3,266	1,932	4,267	25,021	11,503	-	-	36,524	23,904
Province of Manitoba - wage enhancement	8,430	21,211	-	9,173	12,497	15,817	13,770	29,392	-	110,290	-	-	-	110,290	93,826
Trustee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,981
Resident Contributions	18	516	-	-	577	285	641	285	285	2,607	-	-	-	2,607	6,777
Lord Selkirk School Division	-	-	-	-	-	-	-	-	2,041	2,041	-	-	-	2,041	4,692
Fundraising	-	-	-	-	-	-	-	-	-	-	-	-	3,056	3,056	1,200
Amortization of deferred contributions	-	-	-	-	-	-	-	-	2,500	2,500	-	-	13,135	15,635	25,150
Other income	-	-	-	-	-	-	-	-	-	-	3,050	-	597	3,647	3,581
	217,649	269,884	-	98,518	266,554	212,856	267,196	572,121	453,282	2,358,060	14,553	-	16,788	2,389,401	2,354,963
Expenses															
Advertising	-	-	-	-	-	-	-	-	-	-	242	-	-	242	138
Amortization	88	2,680	2,268	-	77	3,551	6,674	32,788	5,679	53,805	74,495	-	-	128,300	78,989
Cable	653	901	456	454	808	811	862	702	-	5,647	-	-	-	5,647	5,813
Day Program	116	872	-	392	812	507	772	820	9,372	13,663	5,054	-	-	18,717	17,886
Directors expenses	-	-	-	-	-	-	-	-	-	-	2,155	-	-	2,155	-
Food	10,771	13,570	-	2,537	12,106	8,658	11,907	20,626	11,252	91,427	1,542	-	-	92,969	77,827
Fundraising	-	-	-	-	-	-	-	-	-	-	710	-	-	710	-
Furnishings	-	1,206	-	-	-	346	556	4,709	24,593	31,410	4,147	1,572	9,834	46,963	57,706
GST Expense	193	440	78	119	252	327	355	576	3,026	5,366	-	-	209	8,072	12,942
Insurance	553	1,261	1,876	555	573	1,349	1,190	3,446	1,631	12,434	4,962	-	-	17,396	20,347
Interest on mortgage	-	1,323	2,116	-	-	3,836	5,951	35,043	9,610	57,879	3,683	-	-	61,562	51,622
Loss on disposal of capital assets	-	-	-	13,244	-	-	-	-	-	13,244	-	-	-	13,244	5,383
Membership fees	-	-	-	-	-	-	-	-	-	-	944	-	-	944	725
Office, medical, and house supplies	586	1,203	-	60	947	755	1,155	2,195	3,851	10,752	9,933	-	-	20,685	16,984
Professional fees	98	205	-	205	341	340	341	205	6,020	7,755	45,477	-	-	53,232	48,121
Property taxes	-	2,775	3,246	-	-	3,282	3,484	1,317	3,813	17,917	3,813	-	-	21,730	21,094
Rent	3,996	-	-	1,979	11,388	-	-	-	-	17,363	-	-	-	17,363	18,959
Repairs and maintenance	2,222	6,614	1,149	769	2,780	5,212	4,623	4,894	56,295	84,558	47,837	6,640	-	139,035	32,696
Respite charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,558
Salaries and benefits	142,200	170,479	-	62,558	158,878	145,252	188,496	293,279	250,976	1,412,118	147,422	1,594	-	1,561,134	1,512,494
Summer vacation	-	314	-	-	500	500	500	900	385	3,099	-	-	-	3,099	5,143
Training	294	889	-	169	455	391	673	1,025	4,664	8,560	2,667	-	-	11,227	17,131
Transportation	1,254	2,515	-	2,130	1,169	2,215	2,097	3,306	9,697	24,383	1,993	-	-	26,376	26,770
Utilities	4,360	6,424	2,118	2,561	5,343	5,713	5,811	11,117	6,033	49,480	7,519	-	59	57,058	51,911
Van expenses	-	-	-	-	-	-	-	-	12,215	12,215	-	-	-	12,215	6,644
	167,384	213,671	13,307	87,732	196,429	183,045	235,447	416,948	419,112	1,933,075	367,092	9,806	10,102	2,320,075	2,095,280
OPERATING SURPLUS (DEFICIT)	50,265	56,213	(13,307)	10,786	70,125	29,811	31,749	155,173	34,170	424,985	(352,539)	(9,806)	6,686	69,326	259,683
Allocation from administration	(35,501)	(42,561)	-	(15,618)	(39,664)	(36,263)	(47,059)	(73,218)	(62,657)	(352,539)	352,539	-	-	-	-
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUE)	\$ 14,764	\$ 13,652	\$ (13,307)	\$ (4,832)	\$ 30,461	\$ (6,452)	\$ (15,310)	\$ 81,955	\$ (28,487)	\$ 72,446	\$ -	\$ (9,806)	\$ 6,686	\$ 69,326	\$ 259,683