



2016 Report to Audit Committee

Meeting agenda



- 2015 audit and financial statements
- Current market
- What's new?
- AHCC audit and accountability committee
- 2016 AHCC audit committee work plan
- Risk management

2015 audit and financial stmts

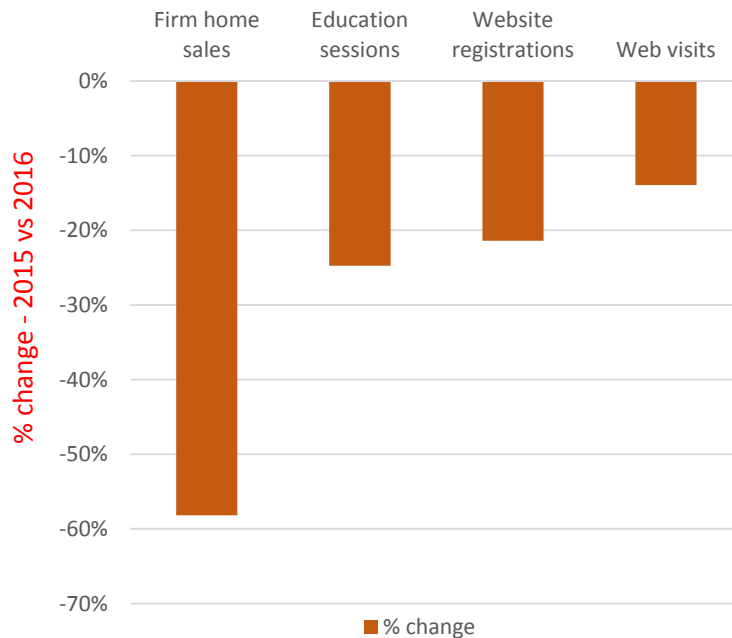
Revenues over \$59M

Operating Surplus \$2.38M

Margin covered operating
costs

- Collins Barrow Calgary LLP issued an opinion without qualification.
- No significant internal control weaknesses were identified.
- 208 possessions / 155 sales in 2015.
- Line of credit had zero balance at year-end.

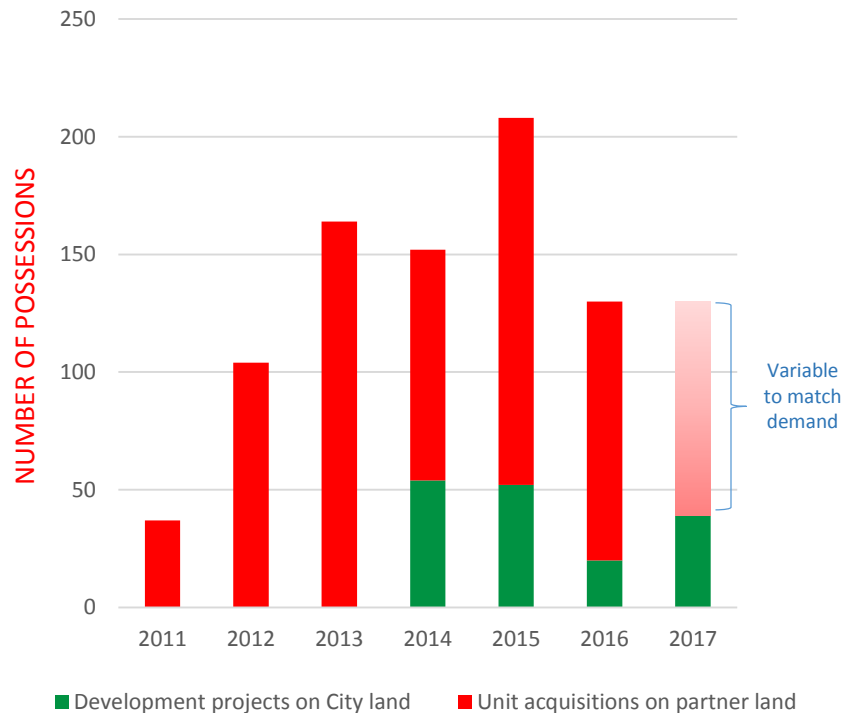
Challenges of current market



We are not immune to challenges:

- Carrying inventory for the first time
- Home buyers are watching the market and taking longer to make decisions
- Lenders are more conservative / barriers to home ownership increasing
- Value of one development potentially impaired

Challenges of current market



Controlling and monitoring what we can:

- Key performance indicators reviewed by the board monthly - including sales, possessions, operating expense coverage, cash flow, and inventory levels
- Sales and inventory pipelines are monitored by management weekly
- Continued focus on internal controls
- Pro-actively educating customers on what to do if financially stressed

What's new?

- Appointed John Harrop as President and CEO. David Watson retired
- Completed annual review of the Audit Committee Terms of Reference June, 2016
- Educated staff on the internal controls and started testing
- Completed our first audit with Collins Barrow, a firm with expertise in real estate, public sector and non-profits
- Approved a formal procurement policy
- Evaluating entire portfolio against the Home Pricing Index on a monthly basis
- Construction costs dropping; though this is tempered by the low dollar

Audit and Accountability Committee



Lisa Oldridge, Committee Chair, ICD.D. CFA Charterholder, MBA

Lisa has extensive knowledge of public and private equity investment and financial markets from 15 years' experience in various capital market roles. She is a CFA charterholder, holds an MBA from the University of Calgary, has been certified by the Institute of Corporate Directors, and is part of the teaching faculty for the Directors Education Program and Human Resources and Compensation Committee Effectiveness courses.

Elizabeth Huculak, Committee member

Elizabeth has over 10 years in senior leadership and executive management positions in dynamic, results-oriented organizations including Homes By Avi and Jayman MasterBuilt. Elizabeth was employed for 15 years at Canada Mortgage and Housing Corporation (CMHC), undertaking roles including Director Risk Management (Insurance and Securitization). She also has experience and expertise in governmental, not-for-profit and entrepreneurial organizations in finance, housing, construction and real estate development, and clean energy development and deployment.

Councillor Brian Pincott, Committee member

Brian is currently serving his third term as Councillor for Ward 11 in Calgary. His background includes working in social, economic and environmental justice locally. As a member of Council, he has dedicated himself to fostering a culture of sustainability in the city and has a keen interest in affordable housing as evidenced by his involvement on the Board of Calgary Housing Company since 2007. Brian graduated from Acadia University with a Bachelor of Arts in 1985.

* Search underway for new Citizen Director / Committee member

2016 audit committee work plan

	Qtr 1	Qtr 2	Qtr 3	Qtr 4
	Feb 24	June 8	Sept 8	Nov 8
Approve 2016 Budget				*
Review audit committee terms of reference		C		
Annual Work Plan Review	C	C	*	*
Review and make recommendations to the Board regarding AHCC risk		C		
Risk registry review		C		
Assessment of internal control environment		C		
Review Disaster Recovery Plan			*	
KPI Indicators – review/revise measurement categories		C	*	
Records Management policy and procedures (Internal Controls Procedure)				*
<u>Annual Audit Previous Year (2015)</u>				
Review Audited Year End Financial Statements	C			
Review results and findings from Annual audit	C			
Evaluate performance of external auditor	C			
<u>Annual Audit Current Year (2016)</u>				
Appointment of external auditor	C			
Identify areas requiring special attention				*
Review and approve external auditor scope, audit plan and engagement letter			*	*

C is complete

* Is pending

Risk management

IMPACT	HIGH	Legal liability (8) Builder partnerships (9) Operating cash management – short term (19) Development cash management – medium term (20) Inventory Scarcity (18a)	Customer base (17)	Shared equity model (2) Market (22) Inventory Surplus (18b)
	MEDIUM	Shareholder alignment (5) Asset protection (14)	Business model (1) Client expectations (6) Recruitment & retention (11) Compensation & benefits (12) Cost management (13) Reputation (21)	
	LOW	Governance (3) Performance monitoring (7) Accountability alignment (10) Financial reporting & planning (15) Records management – privacy / legal docs (16)	Leadership (4)	
		LOW	MEDIUM	HIGH
		LIKELIHOOD		

Top three risks

Shared equity model:

- Current market resulting in lower receipts on resales
- Volume of resales increased in first 6 months of 2016 (23 vs 17 in 2015)
- Equity loan receivables are discounted each quarter for time-value of money
- Allowances booked for developments where receivables are assessed as impaired

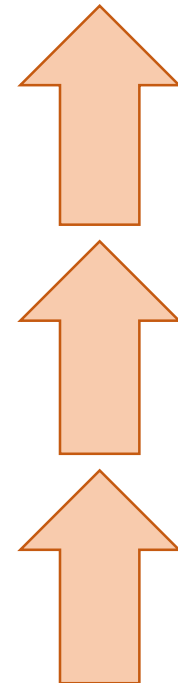
Market:

- Reduced real estate values erode margins and increase the risk of inventory and land write down; Operating expenses cut where possible
- Portfolio evaluated monthly using HPI index
- Board and management make decisions through lens of current market and future value proposition for the client

Inventory Surplus:

- Inventory risk now split into two; previously risk was lack of inventory, now concern is inventory surplus
- Current market conditions pose risk of being unable to sell inventory units
- Inventory commitments and ability to carry units monitored monthly

Direction of risk:



Risk management

Mitigation

- Internal controls documented and reviewed by auditor. Examples:
 - IC-08 Land & inventory valuation process
 - IC-10 Cash flow monitoring process
 - IC-13 Contract and commitment process
 - IC-14 Journal entry process
- All staff educated on internal controls in Fall 2015; one/two controls now reviewed each staff meeting
- Internal controls testing occurred and will be done annually
- Whistleblower policy added
- Insurance review done annually
- Debt covenants reviewed annually

Monitoring

- Oversight over Finance Manager position with monthly reasonableness tests (IC-14)
- Valuation of equity receivable process completed quarterly
- Board reviews, KPIs, commitment schedule, 12 month rolling cash flow forecast monthly

Questions?



Aseel Jawad with husband Monjed Al-Bassri and daughter Rafal Al-Bassri, have built a new life from scratch after fleeing wartorn Iraq for Calgary in 2010

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