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Report to the Audit Committee - Communication of Audit Results

Attainable Homes Calgary Corporation
For the year ended December 31, 2014

March 16, 2015

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To the members of the Audit Committee of
Attainable Homes Calgary Corporation

We are pleased to report that we have now substantially completed our audit of the financial statements of **Attainable Homes Calgary Corporation** ("AHCC" or the "Corporation") for the year ended December 31, 2014. We enclose our *Report to the Audit Committee-Communication of Audit Results* to continue our dialogue with the Committee on the audit of AHCC. This report provides an overview of the results of our audit including comments on misstatements, significant accounting policies, sensitive accounting estimates, and other matters that may be of interest to the committee.

This communication has been prepared to comply with the requirements outlined in CAS 260 *Communication with those Charged with Governance.* The information in this document is intended solely for the information and use of the Audit Committee, Board of Directors and management. It is not intended to be distributed or used by anyone other than these specified parties.

We express our appreciation for the cooperation and assistance received from the management and staff of AHCC during the course of our audit.

If you have any particular comments or concerns, please do not hesitate to raise them at our scheduled meeting.

Yours sincerely,
Grant Thornton LLP

Grant Thornton LLP

Henry Chow, CA, MPAcc
Partner*

* A Partner through Henry H. Chow Professional Corporation

cc: David Watson, President and CEO
David Laycock, Board Chair

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Status of the audit

Outstanding items

We have substantially completed our audit of the financial statements of AHCC for the year ended December 31, 2014 and the results of that audit are included in this report.

We have attached our draft auditor's report as **Appendix A**. We will finalize the report once the Board of Directors has approved the financial statements. The following items were outstanding as at the date of this report:

- Receipt of signed management representation letter (draft to be provided under a separate cover);
- Final inquiries regarding subsequent events;
- Updated response to legal letter;
- Signed independence confirmations from appraisers;
- Final concurring partner review and quality control review;
- Approval of the financial statements by the Board of Directors.

Planned audit approach

We have successfully executed our audit strategy in accordance with the plan presented to the committee on November 17, 2014.

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Audit results

Our audit identified the adjusted and unadjusted non-trivial misstatements noted below.

Summary of misstatements

Misstatements identified during the course of our audit and adjusted in the financial statements by AHCC as a result of our audit procedures were as follows:

	DR/(CR) statement of:			
Adjusted misstatements	**Financial assets**	**Liabilities**	**Non-financial assets**	**Operating surplus**
To record an additional allowance on equity receivables.	$ (329,870)	$ -	$ -	$ 329,870
To record a discount on equity receivables.	(589,252)	-	-	589,252
To correctly flow through restatement adjustments to the current year.	(440,167)	512,771	-	(72,604)
To record adjustment in fair market value of one parcel of land.	852,831	-	-	(852,831)
Total adjusted misstatements	**$ (506,458)**	**$ 512,771**	**$ -**	**$ (6,313)**

Non-trivial misstatements noted during the course of the 2014 audit engagement but not adjusted in the financial statements were as follows:

	DR/(CR) statement of:			
Unadjusted misstatements	**Financial assets**	**Liabilities**	**Non-financial assets**	**Operating surplus**
Roll forward impact of prior year misstatements.	$ -	$ -	$ -	$ 7,044 (7,044)
Total unadjusted misstatements	**$ -**	**$ -**	**$ -**	**$ -**

We have discussed the unadjusted misstatement with management and requested that the identified amounts be adjusted. They have concluded that the unadjusted misstatement is not material to the financial statements of AHCC.

Subject to the approval of the Audit Committee, we are willing to accept management's conclusion.

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Summary of disclosure matters

The following is a description of disclosure adjustments made by the entity as a result of the audit of the financial statements:

Description of adjustment	Considerations and discussion
Statement of accumulated operating surplus	• Amended presentation for disclosure of operating surplus to reflect accumulated operating surplus prior to and after restatement.
Note 2 – Restatement of previously issued financial statements	• Additional disclosures with respect to financial statement impacts of the re-statement.
Note 5 – Equity receivables	• Additional disclosures on allowance for equity receivables and discounting of equity receivables.
Note 7 – Equity investment in Co-Ownership	• Additional disclosure with respect to the Corporation's share of assets, liabilities, revenues and expenses of the Co-Ownership.
Note 9 – Credit facility	• Additional disclosure on general security over the Corporation's assets.
Note 10 – Mortgages	• Additional disclosure on repayment of mortgage during the year.
Financial statements	• Various other text edits, amount changes and formatting changes in the financial statements.

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Reportable matters

Internal control

Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting system provides timely, accurate and reliable financial information, and safeguards the assets of the entity.

The audit is designed to express an opinion on the financial statements. Our understanding of internal control is sufficient to enable us to plan the audit and to determine the nature, timing and extent of tests to be performed. However, if we become aware of a deficiency in your internal controls systems, auditing standards requires us to communicate to the audit committee those deficiencies we consider significant or material. However, a financial statement audit is not designed to provide assurance on internal control.

During the course of performing our audit, we have identified weaknesses in internal control. Discussion on these issues and our recommendations on these matters have been provided in an internal control letter under a separate cover. Summary of the weaknesses are as follows:

- Monitoring of internal controls – based on the size of the Corporation, it is not unusual to not have a process to monitor internal controls;

- Journal entry review process for journal entries prepared by the Finance Manager – based on the size of the Corporation, there are limited number of individuals that can review the journal entries prepared by the Finance Manager; and

- Process for valuation of equity receivable – With the passage of time, the participation amount percentage recoverable decreases year over year. With the current market conditions, management should have a process to ensure that the amount recoverable is not overstated in the financial statements.

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Significant new accounting policies

The Corporation's critical accounting policies are disclosed in Note 3 of the financial statements for the years ended December 31, 2014. There were no new accounting policies adopted during the year.

Significant transactions

The following significant transactions were noted during the course of our audit of the financial statements:

Significant transaction	Considerations and results	Auditor's comments
Restatement of previously issued financial statements	The Corporation had accounted for its acquisition of land from the City of Calgary (the "City") at the City's carrying amount. During the first quarter of 2015, information regarding the accounting for the land acquisitions came to the attention of the Corporation's senior management, and it was determined that the accounting practice was not compliant with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAB for Government NPOs"). As a result, land is to be accounted for at the fair value with any difference between the consideration paid and fair value to be reported as a contribution. Management has completed a fair market value calculation of the Lands as at the date of transfer to calculate the difference between the fair market value and the carrying value. The difference has been recorded to opening accumulated operating surplus for the year ended December 31, 2013.	We have reviewed the accounting treatment for the restatement and agree with management's assessment.
Westbury Park Co-Ownership	During the year ended 2013, the Corporation entered into the Westbury Park Co-Ownership agreement (the "Agreement") for the purpose of developing, constructing and selling units (the "Project") to qualified middle income Calgarians. In order to complete this Project, the Co-Owners have created a separate legal entity whereby the Co-Owners have equal shares in the entity, with the rights and obligations of each Co-Owner being several and proportionate to their respective Co-Owner interest. The following significant events occurred during the year ended December 31, 2014: • Construction of the Project was completed; • The vendor take-back mortgage for the contribution of land by AHCC was paid by the Co-Ownership to AHCC; • AHCC, in turn, repaid the mortgage outstanding with the City of $1.8M on this land; • In addition to the above, the Co-Ownership also completed a cash distribution to the Co-Owner partners in the amount of $450,000 each; • 54 units of the total 74 units were sold through the Attainable Homes program; • Sales and cost of sales for the above mentioned units have been recorded on a gross basis on the books of AHCC, with the margins on these units being recorded through the equity income from the Co-Ownership.	We have reviewed the accounting treatment for all significant transactions, and agree with management's assessment.

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Sensitive accounting estimates and disclosures and factors affecting disclosure values

During the course of our audit, we noted the following sensitive accounting estimates and disclosures or factors impacting disclosure values:

Area	Management's estimation process	Auditor Comments
Equity receivables - allowance	During the current year, it was identified that a specific property showed signs of impairment as the expected appreciation of the property was not proportional to the participation percentage decline year over year. Due to the current market conditions, there are indicators that the equity receivable amount loaned to the participants on this property may not be collectible. Based on these indicators, management has taken an additional allowance of $329,870 on this property, making the cumulative allowance $479,870. Significant assumptions used in this calculation include expected future market prices and expected timing of sale of units on the property. Changes to these assumptions can have a significant impact on the calculation of allowance on equity receivables.	Audit procedures include reviewing management's assessment of impairment indicators, estimation process and assumptions used. We believe management's estimate to be reasonable.
Equity receivables - discount	Equity receivables are financial instruments that should be measured at or cost or amortized cost in accordance with the Corporation's accounting policy for financial instruments. During the year ended 2014, the Corporation has estimated a collection timeline based on collections in the past and current years. Therefore, management has discounted the equity receivables. Significant assumptions include estimated year of sale of units by participants of the Attainable Homes program, and interest percentage used for present value calculations. Changes to these assumptions can have a significant impact on the calculation of amortized cost of equity receivables.	We have reviewed management's estimation process and assumptions used, and conclude that they are reasonable.
Land and site development costs	The land and site development costs have been recorded on the financial statements at cost. Based on the valuation of the lands by professional appraisers and the location of the lands, there are no indicators of impairment. The properties for which site development costs have been incurred are expected to be used for future AHCC developments. It has been determined by management that the land and site development costs are not impaired as of December 31, 2014.	Audit procedures consist of review of inputs and techniques used by the professional appraisers, as well as management's assumptions. We believe management's estimate to be reasonable.

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Area	Management's estimation process	Auditor Comments
Fair market value of Lands for prior period restatement	Management has estimated the fair market value of lands transferred to the Corporation. Management has mostly relied on land values estimated by qualified independent real estate appraisers.	Audit procedures consist of review of inputs and techniques used by the professional appraisers, as well as management's assumptions. We believe management's estimate to be reasonable

Related party transactions not in the normal course of operations

During the course of our audit, we did not note any related party transactions that were not in the normal course of operations that involve significant judgments made by management concerning measurement or disclosure. There were related party transactions with City of Calgary and the Westbury Park Co-Ownership, which have been disclosed in the financial statements.

Cooperation during the audit

We report that we received full cooperation from management and the employees of AHCC. To our knowledge, we were provided access to all necessary records and other documentation and any issues that arose as a result of our audit were discussed with management and have been resolved to our satisfaction.

Consultations with other accountants

To our knowledge, management did not seek the advice or opinion of other external accountants on financial reporting or accounting matters.

Fraud and illegal acts

Our procedures and inquiries of management did not reveal any fraud or illegal acts.

Independence

As external auditors of AHCC, we are required to be independent in accordance with Canadian professional standards. These standards require that we disclose to the audit committee all relationships that, in our professional judgement, may reasonably be thought to bear on our independence. We have provided a letter to the audit committee, dated November 17, 2014, which confirms our independence with respect to AHCC.

As of today's date, we re-confirm our independence.

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Technical updates

Canadian standards in transition

Accounting and auditing standards

Recent changes in accounting and auditing standards were communicated to the Audit Committee in the Report to the Audit Committee – Initial Communication on Audit Planning dated November 17, 2014. We are not aware of any other significant accounting and auditing standards that affect the Corporation at this time.

Appendix A – Draft independent auditor's report

To the Directors of

Attainable Homes Calgary Corporation

We have audited the accompanying financial statements of **Attainable Homes Calgary Corporation** which comprise the statement of financial position as at December 31, 2014, and the statements of operations and accumulated operating surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

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 judgement, 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 in our audit 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 **Attainable Homes Calgary Corporation** as at December 31, 2014 and the results of its operation and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Calgary, Alberta
March ●, 2015

Chartered Accountants