

ANNUAL REPORT AND RISK MANAGEMENT PROCESSES

FOR: CITY OF CALGARY'S AUDIT COMMITTEE
FROM: ATTAINABLE HOMES CALGARY CORPORATION
September 18, 2018



We are pleased to present the Annual Report, Governance and Risk Management Processes. This document includes responses to the five items requested for the annual report as well as the six questions posed in Councillor Woolley's letter dated May 2nd, 2018.

1.0 OVERVIEW

Attainable Homes Calgary Corporation (AHC) is a public not-for-profit corporation incorporated in 2009 under the Business Corporations Act. At inception, AHC was granted seed funding of one million dollars from The City of Calgary and matching one million dollars from the Government of Alberta. In addition, The City of Calgary sold AHC eight parcels of land at The City's book value, to be paid at the time the land was developed. Since the original infusion of funding, AHC is proudly financially self-sustaining.

Since 2009, Attainable Homes has helped almost 900 families purchase their own homes. Of those, 187 families have moved through the program, either by selling their home, or by paying out AHC to remove us from title. The funds received from the re-sales of these units supports future development.

Our small shop of twelve people continually receives calls from cities and towns across Canada and the United States inquiring about our program with the aim of offering a similar program in their communities. Most recently, a suburb of Toronto with two pieces of land is requesting that we walk them through the process of building an AHC-type program. We are motivated to maintain this flagship program for the citizens of Calgary.

2.0 SUMMARY OF GOVERNANCE STRUCTURE & SUCCESSION PLANNING

Attainable Homes Calgary Corporation is directed by an active, skills-based, volunteer board. We have eleven potential board positions, nine of which are filled. Of the nine positions, two are council members appointed by The City of Calgary, Honourable Mayor Nenshi and Councillor George Chahal.

The board has three committees: Audit and Accountability Committee (3 members), Corporate Governance & Performance Committee (3 members) and Development Committee (4 members).

In 2016, AHC went through a rigorous series of strategic planning sessions. With the new, expanded strategic direction identified, the board recognized the need for additional skills on the board in the areas of real estate law and land development. To allow the board to expand into these areas of expertise, AHC requested permission from The City of Calgary as the

Shareholder to increase the maximum size of the board from nine to 11. The request was approved in March 2017.

Each board member can serve a maximum of two, three-year terms. Our Board Chair, Sano Stante's term will be ending June 28, 2019.

Robin Lokhorst and Brian Pincott were appointed to the board in 2017 (see profile below). There has been a reallocation of duties in 2017, with Robin Lokhorst assuming the position of Chair of Corporate Performance & Governance from Lisa Oldridge and Brian Pincott having replaced Elizabeth Huculak as Chair of Audit and Accountability Committee. The Development Committee was introduced in 2018 and Roger Andrews holds the Chair position.

2.1 CURRENT BOARD OF DIRECTORS

Sano Stante, Board Chair

Sano contributes over 31 years of direct experience in real estate sales/development and nine years prior experience in development and construction. He has expertise consulting to governments, businesses and institutions regarding residential and commercial real estate markets, as well as assisting builders in developing and marketing real estate in Calgary. A passion for sustainable housing and communities remains a common theme in Sano's endeavours throughout his career.

Mayor Naheed Nenshi, Director

Naheed Nenshi is currently serving his third term as Calgary's Mayor. He is a passionate Calgarian, an accomplished business professional and a community leader. Mayor Nenshi's leadership continues to inspire a culture of citizen-focused growth in the city of Calgary. Prior to becoming Mayor, he ran a large nonprofit, was a trusted advisor to corporate leaders in Canada and the US, and authored the book *Building Up: Making Canada's Cities Magnets for Talent and Engines of Development*.

Corporate Performance & Governance Committee Members

Robin Lokhorst, Committee Chair

Robin is Managing Partner of McLeod Law and is the Chair of the firm's Executive Committee. With over 25 years of legal experience, Robin is focused exclusively in commercial and residential real estate. Working with home builders, property developers and lenders, through to buyers and sellers, Robin has a highly transactional practice involving land development and construction projects, real estate transactions, corporate finance and lease agreements. He is also involved in condominium development work in Alberta and out of province. Robin has been a Calgarian since 1977, joining McLeod Law over 25 years ago. Robin is on the Executive Committee of the CBA Managing Partner Subsection and serves as legal counsel to the Canadian Luge Association since 2007.

Gerry Wagner, Director

Gerry Wagner is a corporate director and advisor. He has over 30 years' experience as a Chartered Accountant and holds the Institute of Corporate Directors designation ICD.D. He serves on the board of directors of both public and private companies. He is also a consultant to companies in the financial services industry. Gerry has held founding director and executive positions at several financial institutions focused on residential mortgage lending including CFF Bank, MonCana Bank of Canada, ResMor Trust Company and the predecessor of Bridgewater Bank.

Sano Stante, Board Chair

Audit and Accountability Committee Members

Brian Pincott, Committee Chair

Brian served 10 years as a Calgary City Councillor, from 2007 to 2017. In his time on city council he focused much of his energy on affordable housing across the spectrum and across the city. A broad interest in inclusivity and sustainability drove a great deal of his work on city council and beyond. He served on the Board of Directors of the Federation of Canadian Municipalities for seven years and led the engagement with the federal government around affordable housing issues for municipalities coast to coast to coast. Prior to being elected, Brian worked in theatre across Canada, and was a social and environmental activist in Calgary.

Roger Andrews, Director

Roger joined the board in October 2016. Roger is a senior executive with a diverse background in real estate operations and finance. He now works as a consultant to real estate organizations. Roger held the CFO position at Jayman MasterBuilt Inc. between 2006 and 2009. Prior to this, Roger was Vice President of Portfolio Management for Bentall Kennedy specializing in multifamily and industrial property.

Gerry Wagner, Director

Development Committee Members

Roger Andrews, Committee Chair

Ken Toews, Director

Ken has over 25 years of experience in land, multifamily, shopping centre, office and hotel development. He played a key role in the development of the Garrison Woods and Currie Barrack's Communities and helped shape the redevelopment of the Edmonton Griesbach Armed Forces Base.

Currently, Ken is Vice President of Development for Strategic Group with a focus on repurposing office building into apartments, new townhouse developments and low and high-

rise residential mixed-use projects. He is an active member of both the University of Calgary's Dean's Circle in the Environmental Design School and the City of Calgary's Development Advisory Committee. Ken also teaches Mixed-Use Development at the U of C and has a passion for affordable, attainable housing.

Melanie Ross, Director

Leading the sustainable building team at Integral Group, Melanie supports a wide range of projects ranging from LEED, WELL, FitWel and other third-party certifications to energy management and existing building performance, while managing a growing portfolio in sustainability planning and policy development.

Melanie's 10+ years of experience with recognized architecture, planning and engineering firms has brought her a deeper understanding of the industry and a respect for various stakeholder viewpoints. Her work as a CaGBC Review Team and Materials TAG member and Education Faculty member gives her further insight into the strategic and technical nuances of LEED projects. With applied experience in marketing and communications, Melanie drives her teams to embrace and integrated design process to deliver for the clients' needs.

Melanie was appointed to the WELL Building Standard teaching faculty and has delivered several workshops and presentations on the topic of health and wellness in buildings. She was also appointed to the CaGBC WELL Taskforce, working to identify the challenges for Canadian market adoption of the standard. Lastly, she serves as Chair of the CaGBC Alberta Chapter Leadership Board.

New Board Members

AHC welcomed Ken Toews, Gerry Wagner and Melanie Ross as new citizen members in 2018. As well, AHC welcomed a new City appointed member to the Board:

Councillor George Chahal, Director

George Chahal, City Councillor Ward 5, was born and raised in Calgary and lived his formative childhood years in the community of Saddleridge in the Northeast. He has a Bachelors in Economics and a Masters Degree from the Faculty of Environmental Design (Planning) from the University of Calgary. Prior to becoming City Councillor, he owned a small business in the construction and development industry. George is married with three young daughters, is actively involved in coaching and community activities, is a sports enthusiast and is a proud Calgarian.

2.2 Board Recruitment Process

The Corporate Performance & Governance (CP&G) Committee manages the AHC Director Recruitment process. With their guidance, AHC has built a well-balanced and broadly skilled board.

A Board/CEO succession and Board term review is performed by the committee in the first quarter of every year. At that time, the current board is measured against the skills matrix and gaps are identified. The Committee then goes to the board with the recommendation to begin the recruitment process.

Applicants are solicited through a variety of routes including the Institute of Corporate Directors. Candidates are screened with the aid of the skills matrix and short listed for interviews.

Interviews are performed by the CP&G Committee and a short list of candidates are taken to the board for discussion based on those interviews.

After that discussion, a second interview can be performed or the CP&G Committee can recommend the nomination of a candidate to join the board. The Board of Directors must approve the candidate(s) to be brought forward to the Shareholder for election.

2.3 Board Committee Terms of Reference

Each committee reviews its terms of reference on an annual basis. After being reviewed and approved at the committee level they are presented to the entire Board of Directors for approval. This gives the board the opportunity to review how the terms of reference for each committee intersect.

2.4 Management Changes

At an organizational level, AHC welcomed a new Interim President & CEO in 2018, Elizabeth Huculak. Elizabeth had been serving on the AHC Board of Directors since 2015.

Elizabeth Huculak, Interim President & CEO

Elizabeth is an Economist and brings 15 years in senior leadership and executive management positions in both public and private organizations with proven results and outcomes in housing finance, development and operations. Throughout her career she has developed expertise in: strategic and operational business management; risk management; competitive analysis; technology commercialization and, labour market analysis.

In the recent past, Elizabeth has held the position of General Manager at both Canada Mortgage and Housing Corporation and Homes by AVI as well as VP of Strategy and Resource Development with Jayman MasterBuilt.

Terra Davidson, Interim Director, Sales

In addition, AHC has also introduced an interim Director of Sales to the organization, Terra Davidson. Terra is a veteran in the home building industry. After graduating with a major in marketing, Terra joined the Consumer Strategies Group where she cut her teeth in new home marketing planning. Most recently Terra held the position of Director of Sales and Marketing at Avalon MasterBuilder. Terra is passionate about helping Calgarians move into homeownership.

Marianne Wade, Director, Project Development

AHC has also welcomes a new Director of Project Development. Marianne Wade is an experienced professional planner with a diverse career spanning both the private and public sectors in western Canada for over two decades. Career highlights include delivering over 1,700 affordable housing units in Greater Vancouver; developing and implementing ski and golf resort master plans in Whistler and Golden; serving as the Manager of Development Services for the City of Campbell River; serving as a city councillor in Whistler; participating in senior management teams for land development companies in Calgary; and serving as a commissioner on The City of Calgary's Planning Commission for four years. Marianne has completed graduate studies at UBC with an undergraduate degree came from the University of Winnipeg where a research grant led to the Institute of Urban Studies publishing her paper on cooperative housing.

3.0 RECENT FINANCIAL HIGHLIGHTS

Attainable Homes Calgary Corporation presents its financial statements in accordance 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")

2017 Audit Highlights:

- Collins Barrow performed the 2017 audit and issued an unqualified opinion
- No significant internal control weaknesses were identified
- Final overall materiality was \$589,000 based on 2% of cash expenditures.
- Posting threshold for errors was 5% of this amount, or \$29,450
- Auditors agreed with management's assessment of the valuation of inventory and land; and valuation of equity receivables

2016 Financial Highlights:

Revenue:

There were 108-unit possessions in 2017 resulting in \$30M revenue. Margins on home sales were above target at 8.07% against a budget of 7.6%. Continued downward pressure on multi-family home prices is reducing margins in 2018; margins are 7.3% YTD June 2018.

Expenses:

Operational expenses were cut where possible, resulting in many line items coming in well below budget (salaries, administration, communications, legal).

Slower than anticipated sales resulted in extra inventory and carrying costs coming in over budget.

A deposit was written off in December of 2016 for \$121,050. Those funds were returned to AHC in April 2017.

Restricted cash:

Reserve fund of \$1M (50% funded in cash) was approved in 2016. Funds are to be used for shortfalls in future operating revenue but can only be accessed with the approval of the Audit and Accountability Committee.

Inventory:

AHC held 47 homes in inventory at December 31, 2017. As per PSAB (Public Sector Accounting Board), inventory needs to be carried at the lower of cost or net realizable value. Upon analysis of the inventory held, the organization wrote down approximately \$416,000. This write down can be seen on the Statement of Operations and Accumulated Operating Surplus as Impairment of Inventory. It is a non-cash item and does not impact the debt covenant calculations.

Equity Receivables:

As financial instruments, equity receivables need to be measured at fair value. For this reason, the equity receivables portfolio is evaluated every quarter. Developments are looked at individually for indicators that an allowance may be required. There were three allowances booked at the end of 2017: a) discount for the time value of money b) allowances for two developments, and c) foreclosure allowance.

Financing and Financial Covenants:

As at December 31, 2017 Attainable Homes Calgary Corporation had access to a \$10 million dollar credit facility. This credit facility includes financial covenants based on the interest coverage ratio and the total debt ratio. The organization met both covenants on December 31, 2017.

The purpose of this facility is for day-to-day operation and is available by way of prime-based loans, guaranteed notes and letters of credit. This credit facility is secured by The City of Calgary.

At December 31, 2017, \$3,091,214 was outstanding on this revolving line of credit.

In April of 2017, AHC entered into an agreement for an additional \$10 million dollar term loan for the purpose of purchasing assets. This facility is NOT secured by The City of Calgary but is backed by the assets purchased with the loan.

At December 31, 2017, \$780,326.01 was outstanding on this term loan.

As at September 6, 2018 the balances on both facilities are as follows:

Facility	Outstanding Balance	Total borrowing allowed
A (secured by City of Calgary)	\$7,515,275	\$10,000,000
B (NOT secured by City of Calgary)	\$ 564,597	\$10,000,000
Total	\$8,079,872	\$20,000,000

Available Balance: \$11,920,128

4.0 KEY 2018 INITIATIVES / STRATEGY :

The board completed an in-depth strategic plan review in 2016 and approved an updated five-year strategic plan in March of 2017. Through a series of strategic planning sessions, the board, with insights from staff, revisited each aspect of our program. Two main issues came to light:

1. With all our success, we are still unable to meet the needs of many individuals who aspire to be homeowners.
2. We need to further insulate ourselves from market and regulatory factors that are outside of our control.

With these problems identified, the organization moved away from a standard mission statement to a WHY / HOW / WHAT format.

WHY: We improve life trajectories for Calgarians striving to attain quality homeownership.

HOW: People – We operate from a culture of trust, teamwork, purpose and achievement.

Sustainability – Our projects reduce the overall environmental impact in such a way that operating efficiency and long-term value are maximized over the building’s lifecycle.

Innovation – We demonstrate leadership by adopting new approaches and best practices to achieve housing quality that meets the needs of communities and Calgarians now and in the future.

Diversification – We recognize the diverse needs of clients and seek alternative housing forms, tenures, and financial models.

WHAT: We focus our work around three strategic pillars: resilient clients, quality housing models, and operational excellence.

Benefits to Homeownership from Attainable Homes Calgary

Housing	Housing security	• Ability to escape the potentially uncertain situation of renting
	Comfort	• Heathy, high quality, energy efficient, and right sized for the family
Financial	Financial security	• Stable payments, hedged against rising rents, interest rates and price fluxuation
	Build equity	• Mortgage repayment, utility cost reduction, rising home price when available, and improvements
Intrinsic	Confidence	• Gain pride / sense of worth and confidence for making a well-informed, major financial decision
	Belonging	• Gain the sense of community / quality of life that comes with homeownership • children can stay in the same school, with the same teachers and friends.
	Flexibility	• Offers housing choice and shared equity, putting few restrictions on program participants.

5.0 ORGANIZATIONS KEY OPERATING AND STRATEGIC RISKS

Attainable Homes Calgary adopted The City of Calgary’s risk register in 2017 and continues to use the same format.

5.1 Top Three Risks

AHC has identified the following top three risks we currently face:

Leadership

A high-risk item since a change in leadership in 2018. We have mitigated the risk by hiring a highly qualified interim President & CEO. Elizabeth Huculak was a prior board member and has in-depth knowledge about the organization and the housing sector. A recruitment process is currently underway, and a permanent President & CEO will be announced in the near future.

In addition, extremely qualified industry leaders have been engaged for the positions of Director of Project Development and Director of Sales (temporary contracts).

Market Risk

Attainable Homes Calgary is exposed to market risk due to fluctuations in the Calgary area housing market. This affects future land and inventory sale prices. In 2016, we saw this risk as trending upward. In 2017, we saw signs of stabilization and noted the trend as such. In 2018, we once again see the market risk trending upward.

In 2016 and 2017, we saw downward market price pressure impacting our apartment-style condos sales velocity and valuation; we are now seeing our townhome product with sales velocity struggle and downward pricing pressures, as well.

Families with higher mortgage pre-approval amounts continue to gravitate towards townhomes that can accommodate their growth plans over the next five or more years, but at times they cannot be accommodated.

The stress test that was introduced by Canada's federal financial regulator on January 1, 2018 has significantly impacted the buying power of middle income Calgarians. Though there are no firm numbers on how many people have decided against buying due to this change, pre-qualifications are being rejected at the rate of one every seven to 14 days based on a client's inability to pass the stress test.

Carrying an excess of inventory at year-end resulted in an inventory write down (aforementioned). To mitigate this risk, contracts are now being designed with more flexibility to give both AHC and our builder partners the ability to better control when product becomes available. AHC has also introduced an inventory procurement hedging strategy to reduce market risk by purchasing a limited amount of product at any one time and then layering on future purchases. This will give AHC blended margins in future months.

AHC has diversified inventory acquisition methods to include development and option agreements and continues to expand our program model. Firstly, by piloting a Rent-to-Own program in Calgary.

Board and management continue to make decisions based on current market and future value proposition for the clients paying careful attention to ensuring a diverse portfolio of product price, built form, location and financing models. The new AHC strategic plan will also focus on a variety of additional criteria in the decision-making process including: opportunity for community development; development partnerships and risk sharing; sustainable and energy efficient construction; built form variety; and client resilience.

Regulatory Risk (NEW)

Attainable Homes Calgary's clients were impacted by changes to mortgage rules in October 2016 when Minister of Finance Bill Morneau introduced a mortgage rate stress test for high-ratio insured mortgages. This resulted in all clients having to prove they could manage a mortgage at the five-year posted rate.

The organization fully supports the Department of Finance Canada's commitment to strengthening the housing market and financial system in Canada, and we acknowledge that this stress test will strengthen our clients' ability to absorb interest rate fluctuations.

Regulatory changes at the municipal, provincial, or federal level that continue to impact AHC and our clients can reduce the demand for affordable homeownership in Calgary, and further reduce the purchasing power of moderate-income Calgarians.

We continue to pay particular attention to: federal interest rate policy, CMHC fees and regulations, municipal development policies, building codes, and risk appetite of banks. Adding board members with skill sets in these areas, increases our ability to adapt to regulatory changes.

Changes to our product offering will allow us to continue to provide quality homeownership outcomes and will allow us to reach a broader client base.

6.0 INTERNAL CONTROLS

Attainable Homes Calgary has 18 active internal controls that are reviewed by all staff annually. Staff members are encouraged to ask clarifying questions and make suggestions where controls are cumbersome.

All staff sign annual confirmation documents evidencing their review and understanding of the internal controls.

Internal Controls include:

- IC-01 Accounts Reconciliation Process
- IC-02 Employee expense authorization process
- IC-03 Payment authorization process
- IC-04 Credit card expense authorization process
- IC-05 Customer pricing process
- IC-06 Insurance policy review process
- IC-07 Audit process
- IC-08 Land and inventory valuation process
- IC-09 Protection, Retention and Destruction of Records
- IC-10 Cash flow monitoring process
- IC-11 Sales process
- IC-12 Key performance indicator review process
- IC-13 Journal Entry process
- IC-14 Contract and Commitment process

IC-15 Cash and Deposit Handling Process

IC-16 Protection of Physical Assets

IC-17 Payroll process

IC-18 Resale process

Internal controls are encouraged to be used as checklists and are often included in documentation.

In addition, AHC is undergoing a Cyber Security review by Collins Barrows. They will help to identify system and process weaknesses. Additional Internal Control procedures could potentially be drawn from this review.

Key performance indicators continue to be calculated and monitored monthly. A monthly dashboard that included early market indicators as well as non-financial indicators is being introduced in the next four to six weeks.