

ANNUAL REPORT AND RISK MANAGEMENT PROCESSES

FOR: CITY OF CALGARY'S AUDIT COMMITTEE
FROM: ATTAINABLE HOMES CALGARY CORPORATION
July 27, 2017



We are pleased to present the Annual Report and Risk Management Processes report. This document includes responses to the five items requested for the annual report as well as the five questions posed in Councillor Woolley's letter dated March 30th, 2017.

1.0 OVERVIEW

Attainable Homes Calgary Corporation (AHCC) is a public not-for-profit corporation incorporated in 2009 under the Business Corporations Act. At inception, AHCC 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 AHCC 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, AHCC is proudly financially self-sustaining.

Since 2009, Attainable Homes has helped 850 families purchase their own homes. Of those, 132 families have moved through the program, either by selling their home, or by paying out AHCC to remove us from title. The funds received from the re-sales of these units supports future development.

Our small shop of nine people continually receives calls from cities across Canada and the United States inquiring about our program with the aim of offering a similar program in their communities. We are motivated to maintain this flag ship 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. Until recently, seven of the nine potential board positions have been filled with five public members and two council members appointed by The City of Calgary, Honourable Mayor Nenshi and Councillor Brian Pincott.

The board has two committees: Audit and Accountability Committee (3 members) and Corporate Governance & Performance Committee (2 members).

In 2016, AHCC 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, AHCC 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. Adam Legge, Board Chair, reached the end of his tenure in early 2017. We are pleased to announce that Sano Stante has accepted the role of Board Chair.

There have been additional reallocation of duties with Lisa Oldridge assuming the position of Chair of Corporate Performance & Governance from Sano Stante and Elizabeth Huculak having replacing Lisa Oldridge as Chair of Audit and Accountability Committee.

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 second term as Calgary's Mayor. He is a passionate Calgarian, an accomplished business professional and a community leader. During his first term in office, Mayor Nenshi's leadership has resulted in many positive changes in Calgary to build better communities and transform government to reinforce a culture of constant citizen-focused improvement at 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

Lisa Oldridge, Committee Chair

Lisa is a doctoral candidate in her first year of a Doctorate of Business Administration in Sustainable Business (through BSL Lausanne) with almost 20 years of capital markets and governance experience. Before beginning her DBA in 2016, she was Principal with Hugessen Consulting, an independent board advisory consultancy advising on matters of senior executive compensation, performance and related governance. Prior thereto, she spent 15 years in various capital market roles including research, institutional equity sales and portfolio manager. She is a CFA charterholder, holds an MBA from the Haskayne School of Business, and has received her ICD.D designation from the Institute of Corporate Directors.

Sano Stante, Board Chair

Audit and Accountability Committee Members

Elizabeth Huculak, Committee Chair

Elizabeth is an Economist with over 10 years in senior leadership and executive management positions with well-established and reputable home builder and developers. Elizabeth also worked 15 years at Canada Mortgage and Housing Corporation (CMHC), undertaking a variety of roles including Regional General Manager for the Prairies and Territories and Director Risk Management (Insurance and Securitization) and member of the Asset and Liability Committee responsible for investment and actuarial policy and strategy.

Councillor Brian Pincott, Director

Brian Pincott is in his third term as Councillor with The City of Calgary. As a member of City Council, he has dedicated himself to fostering a culture of sustainability in Calgary, which is a goal he has been passionate about since moving to the city in 1996.

Over the past three council terms, Brian has been one of the prominent voices in changing the way we grow our city. Throughout his time on Council, he has advocated for alternatives to urban sprawl and the lack of affordable housing in Calgary. As the Chair of the Calgary Housing Company Board, and a member of Attainable Homes Calgary, The Federation of Canadian Municipalities, and the Family and Community Support Services Association of Alberta, Brian works collaboratively with the key stakeholders in these very important discussions.

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.

New Board Members

After a careful recruitment process, AHCC welcomes two new volunteer members to the Board:

Robin G. Lokhorst, LLB, Director

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.

Jeff O'Reilly, Director

Jeff is Director of Development at Royop Development Corporation and has been leading teams for 15 years. His areas of expertise include development management (acquisitions to construction), land development engineering, investment analysis, acquisitions, program management, and organizational leadership

2.2 Board Recruitment Process

The Corporate Performance & Governance (CP&G) Committee manages the AHCC Director Recruitment process. With their guidance, AHCC 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(s) the candidate(s) to be brought forward to the Shareholder for election.

2.3 Board Committee Terms of Reference (Attachment #2 and #3)

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.

In 2017, reflecting the findings from the strategic planning process, the Audit and Accountability committee added enterprise risk management to its terms of reference.

One of the first tasks that came out of this addition was the request that a herringbone analysis be conducted by staff for seven identified risk areas (brand risk, client risk, financial and operational risk, infrastructure risk, market share risk, people and culture risks, supply chain risk). This grass roots exercise was done to ensure our current risk matrix includes the risks that staff see at each stage of the process.

2.4 Management Changes

At an organizational level, AHCC welcomed a new Communications and Marketing Manager in 2016, Jennifer McCarron. Jennifer has impressive communications experience working in non-profits in the areas of housing and climate change. Jennifer also has experience working in media and holds a Masters from Royal Roads University. With this addition, all managerial positions within the organization are filled.

3.0 RECENT FINANCIAL HIGHLIGHTS (Attachments #4 and #5)

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")

2016 Audit Highlights:

- Collins Barrow performed 2016 audit and issued an unqualified opinion
- No significant internal control weaknesses were identified
- Final overall materiality was \$435,000 based on 1.5% expenses
- Auditors agreed with management's assessment of the valuation of inventory and land; and valuation of equity receivables

ADDITION: At the request of AHCC's audit committee, an additional audit process was added to review validity of bank transactions over \$100,000.

2016 Financial Highlights:

Revenue:

There were 96-unit possessions in 2016 resulting in \$26.9M revenue. An additional land parcel was sold through a vendor-take-back mortgage and is due for repayment on July 31, 2017.

Expenses:

Margins on home sales were slightly below target at 8.3 percent against a budget of 9.29 percent. The slippage in margin was due to price reductions in a few developments that experienced downward pressure on prices.

Operational expenses were cut where possible, resulting in many line items coming in well below prior years (salaries, professional fees, occupancy expenses). Carrying extra inventory resulted in some line items coming in over budget in 2016 (inventory carrying costs and interest expense).

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

Restricted cash:

NEW 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:

AHCC held 48 homes in inventory at December 31, 2016. 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 \$359,000. 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 2016: 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, 2016 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, 2016.

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, 2016, \$6,082,845 was outstanding.

In April of 2017, AHCC 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.

As at July 11, 2017 the balances on both facilities are as follows:

Facility	Outstanding Balance	Total borrowing allowed
A (secured by City of Calgary)	\$2,200,000	\$10,000,000
B (NOT secured by City of Calgary)	\$3,100,000	\$10,000,000
Total	\$5,300,000	\$20,000,000

Available Balance: \$14,700,000

4.0 KEY 2017 INITIATIVES / STRATEGY (Attachment #7):

The board completed an in-depth strategic plan review in 2016, and approved an updated 5-year strategic plan in March of this year. 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.

Financial Stability – We provide value to our stakeholders by operating efficiently and managing risk to maintain financial stability.

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.

The board focused our activities around three strategic pillars of service delivery: resilient clients, quality housing models, and operational excellence. The three pillars are further subdivided into nine goals.

STRATEGIC PLAN SUMMARY

Resilient Clients

Goal 1: Empower clients to responsibly enter homeownership.

Goal 2: Provide client care and support throughout their participation in the program.

Quality Housing Models

Goal 3: Operate under a diversity of financial models that enable clients to achieve financial well-being while achieving organizational sustainability.

Goal 4: Diversify housing forms to capitalize on market gaps and opportunities.

Goal 5: Develop projects that facilitate a high quality of life with an emphasis on community.

Goal 6: Embed sustainable design and energy efficiency in all projects where it reduces operating and life cycle costs.

Operational Excellence

Goal 7: Ensure organizational financial stability, sustainability, and diversification.

Goal 8: Advocate for affordable homeownership.

Goal 9: Build strong partnerships to ensure we are an exemplar of best practices.

Each goal is further broken down into one-year milestones with which staff goals and targets will align. Each pillar has defined measures of success which will be evaluated annually by staff and the board.

5.0 ORGANIZATIONS KEY OPERATING AND STRATEGIC RISKS (Attachment #6)

Attainable Homes Calgary Corporation adopted The City of Calgary's risk register this year. The Audit and Accountability committee favoured the format given its incorporation of risk trend lines as well as assigning an owner to each risk.

The likelihood guidelines laid out in this model pushed many of our risks into the middle that were previously high or low based on our prior standard. We appreciate the definitions and believe the new risk register 'heat map' represents our current risk profile fairly.

5.1 Top Three Risks

In 2017, AHCC will be focused on three main risks:

Shared Equity Model Risk

Attainable Homes Calgary Corporation's long-term sustainability will always be partially dependent on the success of the shared equity model.

In concert with access to debt, sufficient future long-term cash streams must be generated to fund the acquisition of land and the construction and/or acquisition of program inventory.

Resale activity (people moving out of the program by selling their home or paying AHCC to remove us from title) has been relatively steady through 2016 and the beginning of 2017. Though market pressures have impacted some clients, we continue to see clients' motivations to sell to be due to changes in life circumstances more so than financially related.

Risk mitigation strategies include the following:

1. Resale transactions are monitored regularly to identify changes in price and sales trends
2. Loans receivable are evaluated each quarter using home pricing index to anticipate potential default
3. Write downs are taken when impairment is detected on specific developments and for the time value of money
4. Foreclosure allowance was booked for the first time in 2016
5. Increased debt capacity was secured in first quarter of 2017.
6. New strategic plan includes a pilot of a new model

Market Risk

Attainable Homes Calgary Corporation is exposed to market risk due to fluctuations in the Calgary area housing market. This affects future land and inventory sale prices. At the end of 2015, we saw this risk as trending upward. It has now shown signs of stabilization.

Whereas in prior years, demand for apartment style condos was strong from single clients or small families eager to get a foot on the housing ladder, demand for apartment-style condos over the last 18 months has been mainly price driven. Families with higher approvals are gravitating towards townhomes that can accommodate their growth plans over the next 5 or more years.

All units currently held in inventory by AHCC are apartment style condos. These apartments were contracted before 2015 and continue to sell at a modest pace.

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 AHCC and our builder partners the ability to better control when product becomes available. In addition, when our homes are sold in the same development as builder homes, every effort is made to physically differentiate the products to avoid direct competition.

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 AHCC 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 Corporation'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 posted rate of 4.79 percent when many were receiving rates as low as 2.3 percent.

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.

In addition to the above, CMHC increased the cost of insurance fees, which is directly added to our clients' mortgage value, further reducing purchasing power.

Furthermore, in late 2016, the Government of Alberta adopted the 2012 National Energy Code for Buildings. Going forward, builder partners will now have to conform to higher energy efficiency standards which, on one hand, will lower operating cost for homeowners but will, on the other hand, increase the cost of construction.

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

Regardless, the changes that occurred in 2016 clearly indicate that regulatory risk needs to be watched closely. We will pay particular attention to: federal interest rate policy, CMHC fees and regulations, Municipal development policies, building codes, and risk appetite of banks. If

the Toronto and Vancouver markets continue to overheat, additional 'cooling' measures may be taken by regulatory bodies which will inevitably impact our Calgary markets and our prospective clients.

6.0 INTERNAL CONTROLS

Attainable Homes Calgary Corporation has 18 active internal controls that are reviewed by all staff in the first quarter of the year. 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. We are working to mitigate redundancies i.e., IC-02 through IC-04.

In 2017, we will be adding an internal control policy focused on personal privacy / FOIP.