

**Mustard Seed Street Ministry Society**

*(a not-for-profit organization)*

**Consolidated Financial Statements**

**March 31, 2009**

## Auditors' Report

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To the Members  
Mustard Seed Street Ministry Society  
(a not-for-profit organization)

We have audited the consolidated statement of financial position of Mustard Seed Street Ministry Society (a not-for-profit organization) as at March 31, 2009 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many not-for-profit organizations, the Society derives revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Society and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenue over expenditures, assets and fund balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of revenues referred to in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2009 and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were audited by another firm of chartered accountants.

*Collins Barrow Calgary LLP*

CHARTERED ACCOUNTANTS

Calgary, Alberta  
July 31, 2009

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Consolidated Statement of Financial Position

March 31, 2009

	2009	2008 (restated - note 3)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,573,877	\$ 5,656,058
Accounts receivable	248,322	79,795
GST recoverable	124,281	215,588
Prepaid expenses and deposits	160,724	157,264
Inventory (note 4)	<u>31,152</u>	<u>47,443</u>
	6,138,356	6,156,148
Long-term investments (note 5)	-	290,000
Capital assets (note 6)	10,669,252	10,431,083
Capital assets under development (note 7)	1,233,345	643,382
Restricted cash (note 8)	<u>125,991</u>	<u>103,177</u>
	<u>\$ 18,166,944</u>	<u>\$ 17,623,790</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 928,550	\$ 716,346
Demand bank loans (note 10)	230,721	249,257
Current portion of long-term debt (note 11)	<u>43,849</u>	<u>152,744</u>
	<u>1,203,120</u>	<u>1,118,347</u>
Long-term debt (note 11)	<u>550,766</u>	<u>1,747,884</u>
Deferred contributions and revenue (note 12)		
Operating, includes deferred revenue	245,773	553,606
Capital assets and capital assets under development	<u>4,842,407</u>	<u>4,111,439</u>
	<u>5,088,180</u>	<u>4,665,045</u>
<b>Net assets</b>		
Invested in capital assets	6,234,854	4,813,141
Internally restricted (note 13)	1,028,809	870,000
Unrestricted	<u>4,061,215</u>	<u>4,409,373</u>
	<u>11,324,878</u>	<u>10,092,514</u>
	<u>\$ 18,166,944</u>	<u>\$ 17,623,790</u>

See accompanying notes

Commitments - note 19

Subsequent events - note 23

Approved by the Board,

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Consolidated Statement of Operations

Year Ended March 31, 2009

	2009	2008 (restated - note 3)
Revenue		
Contributions		
Cash donations	\$ 11,421,256	\$ 10,657,568
Government funding	362,277	1,211,494
Gifts in kind (note 17)	418,441	411,347
Foothills Emergency Shelter	4,220,974	1,743,842
Mountain Aire Lodge operations (note 15)	699,637	732,269
Rental and other income	392,993	320,037
Special fundraising projects	165,148	777,939
Interest	93,135	98,952
Amortization of deferred capital contribution (note 12)	<u>167,762</u>	<u>178,941</u>
	<u>17,941,623</u>	<u>16,132,389</u>
Expenses		
Programs		
Community funded	6,237,702	5,971,219
Government funded	448,647	1,211,494
Gifts in kind	418,441	411,347
Foothills Emergency Shelter	4,218,230	1,793,843
Mountain Aire Lodge, including amortization (note 15)	1,140,973	993,108
Resource development	1,038,509	943,539
Administration	1,383,200	1,020,953
Facility and technology	1,447,828	1,079,487
Amortization	<u>382,174</u>	<u>342,681</u>
	<u>16,715,704</u>	<u>13,767,671</u>
Income from operations	<u>1,225,919</u>	<u>2,364,718</u>
Other income (loss) (note 16)		
Loss due to fire	(368,555)	-
Settlement on legal action	<u>375,000</u>	<u>-</u>
	<u>6,445</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ 1,232,364</u>	<u>\$ 2,364,718</u>

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Consolidated Statement of Changes in Net Assets

Year Ended March 31, 2009

	Invested in Capital Assets	Internally Restricted (note 13)	Unrestricted	2009	2008 (restated - note 3)
Balance, beginning of year					
As previously stated	\$ 4,230,116	\$ 870,000	\$ 4,103,242	\$ 9,203,358	\$ 6,934,653
Restatement (note 3)	<u>583,025</u>	<u>-</u>	<u>306,131</u>	<u>889,156</u>	<u>793,143</u>
As restated	4,813,141	870,000	4,409,373	10,092,514	7,727,796
Excess of revenue over expenditures	-	-	1,232,364	1,232,364	2,364,718
Loss from fire	(291,926)	-	291,926	-	-
Transfer to internally restricted funds	-	158,809	(158,809)	-	-
Acquisition of capital assets	1,682,462	-	(1,682,462)	-	-
Disposal of capital assets	(8,585)	-	8,585	-	-
Repayment of long-term debt	1,306,013	-	(1,306,013)	-	-
Repayment of demand loan payable	18,536	-	(18,536)	-	-
Restricted and deferred contributions of capital assets	(898,730)	-	898,730	-	-
Amortization of deferred contributions	167,762	-	(167,762)	-	-
Amortization of capital assets	<u>(553,819)</u>	<u>-</u>	<u>553,819</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 6,234,854</u>	<u>\$ 1,028,809</u>	<u>\$ 4,061,215</u>	<u>\$ 11,324,878</u>	<u>\$ 10,092,514</u>

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Consolidated Statement of Cash Flows

Year Ended March 31, 2009

	2009	2008 (restated - note 3)
Operating activities		
Operating revenue		
Cash received from donors	\$ 12,056,077	\$ 11,214,622
Cash received from government funding	4,774,868	2,830,237
Cash received from special fundraising projects	193,976	781,855
Interest received	91,321	103,841
Cash received from other operating sources	384,380	676,481
Mountain Aire Lodge sales	684,116	788,213
Cash received from settlement on legal action (note 16)	<u>375,000</u>	<u>-</u>
	<u>18,559,738</u>	<u>16,395,249</u>
Operating expenses		
Cash paid as salaries	(7,845,040)	(6,040,801)
Cash paid to suppliers	(6,469,050)	(5,956,849)
Cash paid to others	(243,752)	(201,397)
Cash paid for interest on long-term debt	(35,036)	(107,081)
Mountain Aire Lodge expenditures	<u>(1,028,310)</u>	<u>(821,251)</u>
	<u>(15,621,188)</u>	<u>(13,127,379)</u>
	<u>2,938,550</u>	<u>3,267,870</u>
Financing activities		
Long-term debt repayments	(1,306,013)	(142,686)
Advance from demand bank loans	-	213,500
Repayment of demand bank loans	<u>(18,536)</u>	<u>(11,145)</u>
	<u>(1,324,549)</u>	<u>59,669</u>
Investing activities		
Building renovations	(15,514)	(28,770)
Purchase of land, building and improvements	(327,983)	(449,688)
Purchase of capital assets excluding land and building	(305,017)	(175,369)
Capital assets under development	(589,963)	(643,382)
Proceeds on disposal of long-term investments	-	134,119
Proceeds on disposal of capital assets	7,280	-
Mountain Aire Lodge purchase of capital assets	(443,985)	(819,669)
Contributions to restricted cash	<u>(21,000)</u>	<u>-</u>
	<u>(1,696,182)</u>	<u>(1,982,759)</u>
Increase (decrease) in cash and cash equivalents	(82,181)	1,344,780
Cash and cash equivalents, beginning of year	<u>5,656,058</u>	<u>4,311,278</u>
Cash and cash equivalents, end of year	<u>\$ 5,573,877</u>	<u>\$ 5,656,058</u>

### Non-cash transaction

Write-off of long-term investments in the amount of \$290,000 (note 5).

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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### 1. Nature of organization

Mustard Seed Street Ministry Society (the "Mustard Seed" or the "Society") is a non-profit, Christian humanitarian organization that responds compassionately to the needs of the inner-city's less fortunate through mobilizing and working with the church and community.

Services provided for its clients/guests include:

- basic services, including meals, food hampers, showers and clothing;
- emergency overnight accommodation, short-term stabilization and transitional housing;
- education programs, including career assessment, grade 12 equivalency (GED) preparation, high school courses, computer training, ESL, and university courses;
- recreation and leisure activities;
- spiritual support, Sunday services and Bible studies;
- employment preparation, including resume writing, employment and Internet job search;
- opportunities for employment and development away from the pressures of inner-city life.

A new project has been started to build an affordable housing complex for guests to further the transition from dependent to independent living (note 7).

The Mustard Seed accomplishes its mission through:

- mobilizing volunteers from church and community to care for the needs of the guests;
- community education through speaking presentations, tours of the Mustard Seed facilities and services, intensive multi-day training for youth and college students, assisting other agencies in Calgary and beyond in best practices;
- fundraising activities that include support from individuals, businesses, government, and other organizations;
- receiving donated gifts-in-kind from donors that provide much of the food, clothing, hygiene products, gift certificates and furniture.

The Society strives to change the lives of guests together with the celebrated efforts of volunteers, donors and the community.

The Mustard Seed is incorporated under the provisions of the *Societies' Act* of the Province of Alberta. As the Society is also registered as a charitable organization authorized to issue donation receipts for income tax purposes under paragraph 149(1)(e) of the *Income Tax Act*, it is exempt from federal or Alberta income taxes, provided certain requirements of the *Income Tax Act* are met.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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### 2. Significant accounting policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Mustard Seed (Calgary) Street Ministry, the Mustard Seed Ministries (Edmonton) and the Seed Community of Change operating as Mountain Aire Lodge. The Society's interest in the net assets of the Mustard Seed Edmonton and the Seed Community of Change is 100%. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

#### (b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and guaranteed investment certificates. The guaranteed investment certificate in the amount of \$1,400,000 (2008 - \$4,478,747) plus accrued interest of \$2,004 has a one year term, bears interest at 3.00% (2008 - 3.00%) per annum and mature in August 2009.

#### (c) Inventory

Inventory is valued at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis.

#### (d) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value when such value is reasonably determinable at the date of the contribution.

The Society evaluates the carrying value of property and equipment for potential impairment when events and circumstances warrant a review. Impairment is recognized when the carrying value of the asset may not be recoverable.

Capital assets are amortized on a straight-line basis over the estimated useful lives of the assets, at the following annual rates:

Land lease	4%
Buildings	4%
Furniture and equipment	5% - 30%
Vehicles	30%
Software	30%

Amortization of deferred contributions is provided on the same basis as amortization of the related capital assets contributed.

# Mustard Seed Street Ministry Society

*(a not-for-profit organization)*

## Notes to Consolidated Financial Statements

March 31, 2009

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(e) Revenue recognition

The Society follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Government funding received for ongoing operations, including monthly mortgage payments is credited to income in the period to which the funding relates. In the case where government funding is received and designated toward the purchase of a capital asset, the funding is credited to income to match the amortization expense of the asset.

Deferred contributions restricted for the acquisition of capital assets are recognized as revenue in amounts that match the amortization of the related capital assets.

Mountain Aire Lodge operations, revenue rental and other income and special fundraising projects revenue are recognized when earned.

Interest income is recognized on an accrual basis.

(f) Gifts-in-kind

Donated materials are recognized in the consolidated financial statements at their estimated fair value if reasonably determinable.

Volunteers of the Society contribute an indeterminable number of hours per year to promote and support the Society's activities. Due to the difficulty of determining estimated fair value of contributed services, contributed services are not recognized in the consolidated financial statements (note 17).

(g) Restrictions on net assets

By decision of the Board of Directors, a separate operations contingency fund is set up for contingencies and emergencies that can be drawn upon in the event that the contributions and cash balances are insufficient to cover monthly operating costs. Interest from the invested funds is used for current operations.

(h) Measurement uncertainty

The valuation of amounts receivable is based on management's best estimate of the collectibility of accounts.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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The valuation of capital assets is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as capital assets. The amounts recorded for amortization of the capital assets and related amortization of deferred contributions are based on management's best estimates of the remaining useful lives and period of future benefit of the related assets.

The valuation of accrued liabilities is based on management's best estimates of expenses incurred during the year that will be payable in future periods.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

(i) Adoption of new accounting standards

Effective April 1, 2008, the Society adopted CICA Handbook Section 1535 – "*Capital Disclosures*" which requires increased disclosure of information regarding the Society's capital and how it is managed. The standard requires enhanced disclosures with respect to an entity's objectives, policies and processes for managing capital, what the entity regards as capital, and the entity's compliance with any external capital requirements and related consequences of non-compliance. The adoption of Section 1535 did not have an impact on the Society's results of operations or financial position. See note 21 for full discussion of the Society's capital management policies.

Effective April 1, 2008, the Society adopted changes to CICA Handbook Section 1400 – "*General Standards of Financial Statement Presentation*". Amendments to this section require management to evaluate, as at each balance sheet date, the Society's ability to continue as a going concern. If management concludes that the Society can no longer operate as a going concern, that fact, along with information relevant to that assessment, is required to be disclosed in the financial statements. When financial statements are not prepared on a going concern basis, this fact is to be disclosed along with a description of the basis of preparation. The amendments to this standard did not have an impact on the Society's consolidated financial statements.

Effective April 1, 2008, the Society adopted CICA Handbook Section 3031 - "*Inventories*", which replaces Section 3030 - "*Inventories*", and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This section provides changes to the measurement and more extensive guidance on the determination of the cost, including allocation of overheads and other costs to inventories; prohibits the use of the last-in, first-out (LIFO) method; requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories; and expands the disclosure requirements regarding inventories and cost of sales to increase transparency. There is no material impact to the consolidated financial statements as a result of this adoption.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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The Society has chosen not to adopt CICA Handbook Section 3862 - "*Financial Instruments - Disclosures*" and Section 3863 - "*Financial Instruments - Presentation*" and continues to apply CICA Handbook Section 3861 - "*Financial Instruments - Disclosure and Presentation*".

(j) Future accounting pronouncements

As of April 1, 2009, the Society will be required to adopt the revised CICA Handbook Section 4400 – "*Financial Statement Presentation by Not-for-Profit Organizations*". Under the revised standards, not-for-profit organizations are no longer required to report net assets invested in capital assets as a separate component of net assets. Instead, the revised standard permits a not-for-profit organization to present such an amount as a category of internally restricted net assets. Revenues and expenses must now be recognized and presented on a gross basis when a not-for-profit organization is acting as a principal in transactions. Not-for-profit organizations will also be required to apply the same standards as profit-oriented enterprises with respect to interim financial statements and statements of cash flows. The new financial statement presentation requirements were issued in September 2008 and the Society is assessing the impact on its consolidated financial statements.

As of April 1, 2009, the Society will be required to adopt the revised CICA Handbook Section 4430 – "*Capital Assets Held by Not-for-Profit Organizations*". Under the revised standards, not-for-profit organizations that capitalize their capital assets must do so for all classes of capital assets and must consistently follow guidance for amortization and impairment losses. The new capital assets requirements were issued in September 2008 and the Society is assessing the impact on its consolidated financial statements.

As of April 1, 2009, the Society will be required to adopt CICA Handbook Section 4470 – "*Disclosure of Allocated Expenses by Not-for-Profit Organizations*", which will require not-for-profit organizations that make allocations of general support and fundraising costs to other functions to disclose the policies adopted for the allocation of expenses among functions, the nature of the expenses being allocated, the basis on which allocations have been made and the functions to which they have been allocated. The new requirements were issued in September 2008. The Society does not expect them to have any impact on its consolidated financial statements.

In April 2008, the CICA published the exposure draft "*Adopting IFRS in Canada*". The exposure draft proposes to incorporate International Financial Reporting Standards ("IFRS") into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this day, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The CICA is currently reviewing the options for the standards to be used by not-for-profit organizations. The Society is currently monitoring the status of the not-for-profit deliberations to determine the potential impact on its consolidated financial statements.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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### 3. Restatement

The Society has restated the comparative figures to include the consolidation of the Mustard Seed Ministries (Edmonton). Assets, liabilities and net assets as at March 31, 2008 have been increased by \$1,735,541, \$846,385 and \$889,156, respectively. Revenue, expenses and excess of revenue over expenditures have been increased by \$1,790,746, \$1,694,733 and \$96,013, respectively for the year ended March 31, 2008.

### 4. Inventory

Inventory is comprised of raw materials to be used in the operations of Mountain Aire Lodge. The total amount of raw materials expensed during the year was \$180,669 (2008 - \$265,442) and \$61,107 (2008 - \$NIL) was written off due to the fire.

### 5. Long-term investments

A hedge fund was received as a donation in a prior period that carries a stipulated sale date in 2019. During the year, management has determined that value of the investment is indeterminable and the investment has been written down to net realizable value of \$NIL.

### 6. Capital assets

			Net Book Value	
	Cost	Accumulated Amortization	2009	2008
Land and land lease	\$ 3,612,318	\$ 23,473	\$ 3,588,845	\$ 3,562,822
Buildings	8,123,021	1,939,588	6,183,433	6,022,266
Furniture and equipment	828,143	311,740	516,403	518,172
Vehicles	282,613	173,486	109,127	104,407
Software	<u>309,552</u>	<u>38,108</u>	<u>271,444</u>	<u>223,416</u>
	<u>\$13,155,647</u>	<u>\$ 2,486,395</u>	<u>\$10,669,252</u>	<u>\$10,431,083</u>

Amortization in the amount of \$553,819 (2008 - \$514,608) was recognized, of which \$171,645 (2008 - \$171,927) relates to assets held by the Seed Community of Change.

### 7. Capital assets under development

The Society is continuing to take steps towards obtaining approval to develop an affordable housing tower, planned for opening in 2011 on the 10th Avenue and Centre Street SE Calgary location. The tower is currently planned to consist of a mix of 224 low-income and one bedroom apartments available to both men and women. Other qualifying criteria for housing is yet to be determined. Plans to finance the tower, including budgets, funding strategies, and negotiations with Government partners are under development.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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To date, the tower development has involved the purchase of land and building and incursion of other costs associated with architectural considerations, project planning and management. The land and building purchased are currently utilized for administrative offices and the maintenance of outstanding lease agreements with assumed tenants that are in the process of being bought out (note 23(b)). The intention is for this building to be torn down and land used as the site for the affordable housing tower. The land and building with net book value of \$3,804,877 (2008 - \$3,818,423) are included in the capital assets balance. In 2009, \$589,963 (2008 - \$643,382) has been incurred and capitalized with respect to development costs, exclusive of the land and building above, that is depreciable upon the completion of the tower.

Deferred contributions (net of amortization on the standing building) of \$2,378,068 (2008 - \$1,973,347) are included in capital assets under development deferred contributions. It is management's best estimate that the total cost to develop the tower will exceed the total contributions received towards the capital asset under development and, to the extent that this estimate is reasonable in future years, the deferred contributions relating to the tower will be amortized upon completion of the capital asset under development to match the rate of amortization on the completed asset.

### 8. Restricted cash

	2009		2008	
	Step-Up Housing	Transitional Housing	Total	Total
Balance, beginning of year	\$ <u>6,382</u>	\$ <u>96,795</u>	\$ <u>103,177</u>	\$ <u>99,824</u>
Contributions	1,000	20,000	21,000	-
Interest earned	<u>108</u>	<u>1,706</u>	<u>1,814</u>	<u>3,353</u>
Net change in the year	<u>1,108</u>	<u>21,706</u>	<u>22,814</u>	<u>3,353</u>
Balance, end of year	\$ <u><u>7,490</u></u>	\$ <u><u>118,501</u></u>	\$ <u><u>125,991</u></u>	\$ <u><u>103,177</u></u>

Pursuant to the terms of Project Operating Agreements entered into with the Department of Alberta Seniors Community Support in 1994, now Housing and Urban Affairs, the Society is required to annually set aside in separate bank accounts amounts designated for the accumulation of a replacement reserve. A total of \$125,991 (2008 - \$103,177) including interest has been accumulated in these bank accounts in respect of the reserve. Use of the funds accumulating in this reserve, including all interest earned is subject to the approval of Housing and Urban Affairs.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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9. Line of credit

The Society has entered into an operating loan agreement and secured a line of credit account limited to \$1,000,000. Interest on the balance outstanding is accrued at bank prime plus 0.375% per annum. Exceeding the limit and overdraft position maintained will result in interest accrued at 21% per annum. There are no set terms of renewal or maturity of this agreement. All amounts payable are due on demand. At the year-end, the Society has not drawn on the line of credit.

10. Demand bank loans

	2009	2008
Demand loan - bank prime rate plus 1.05% due in blended monthly principal and interest instalments of \$1,925, secured by land and building with a net book value of \$299,001)	\$ 195,072	\$ 207,434
Demand loan - bank prime rate plus 1% due in blended monthly principal and interest instalments of \$690 through August 2011, secured by land and building with a net book value of \$188,753	<u>35,649</u>	<u>41,823</u>
	<u>\$ 230,721</u>	<u>\$ 249,257</u>

Interest paid on the callable debt obligation amounted to \$12,845 (2008 - \$14,425).

Approximate principal payments, assuming renewal at similar terms, due within the next five years are as follows:

2010	\$ 18,843
2011	19,860
2012	20,931
2013	22,060
2014	23,250
Subsequent to 2014	<u>125,777</u>
	<u>\$ 230,721</u>

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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### 11. Long-term debt

	2009	2008
Mortgage to Canada Mortgage and Housing Corporation ("CMHC"), payable in monthly instalments of \$444, including interest at 4.33% per annum, to renewal date in September 2009. According to the terms of the Project Operating Agreement governing the Step-Up Housing Program, Housing and Urban Affairs is committed to provide a monthly subsidy (\$151), which covers a portion of the monthly mortgage payment (\$444). The amount of the subsidy is recalculated upon the renewal of the mortgage with CMHC.	\$ 43,786	\$ 47,164
Mortgage to CMHC, payable in monthly instalments of \$5,221, including interest at 3.88% per annum, to renewal date in February 2010. According to the terms of the Project Operating Agreement governing the Transitional Housing Program, Housing and Urban Affairs will provide funding based on 100% of the mortgage principal and interest required, plus an amount to be used in providing the housing program. The amount of the subsidy is recalculated upon the renewal of the mortgage with CMHC.	550,829	591,300
Mortgage repaid in full during the year	<u>-</u>	<u>1,262,164</u>
	594,615	1,900,628
Less: Portion due within one year	<u>43,849</u>	<u>152,744</u>
	<u>\$ 550,766</u>	<u>\$ 1,747,884</u>

The mortgages to CMHC are secured by real property at 102 - 11 Ave. S.E., Calgary, Alberta, with a net book value of \$1,047,649 (2008 - \$965,569).

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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Assuming renewal at similar terms, the estimated principal payments due are as follows:

2010	\$ 43,849
2011	47,339
2012	49,226
2013	51,188
Thereafter	<u>403,013</u>
	<u>\$ 594,615</u>

### 12. Deferred contributions and revenue

Deferred contributions represent restricted donations and other funds received and designated to be used for capital projects and specified operating costs. Deferred revenues represent cash collected in advance of services provided. The change in deferred contributions and revenue for the year is summarized as follows:

#### Operating

	2009	2008
Balance, beginning of year	\$ 544,022	\$ 610,012
Additions	41,498	73,272
Less: Amounts recognized in revenue	(49,747)	(139,262)
Write-down of long-term investment (note 5)	<u>(290,000)</u>	<u>-</u>
Balance before inclusion of Mountain Aire Lodge deferred revenue	245,773	544,022
Mountain Aire Lodge deferred revenue	<u>-</u>	<u>9,584</u>
Balance, end of year	<u>\$ 245,773</u>	<u>\$ 553,606</u>

#### Capital assets and capital assets under development

	2009	2008
Balance, beginning of year	\$ 4,111,439	\$ 3,466,976
Additions	898,730	823,404
Less: Amounts recognized in revenue	<u>(167,762)</u>	<u>(178,941)</u>
Balance, end of year	<u>\$ 4,842,407</u>	<u>\$ 4,111,439</u>

The deferral method of accounting for contributions is intended to provide for the matching of contributions with the expenses to which they relate. Accordingly, deferred contributions amortized to revenue respective of matching expenses in the current year have been included in the current year's contributions. Amortization of deferred contributions respective of capital assets in the amount of \$167,762 (2008 - \$178,941) has been reported separately in the statement of operations.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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Included above in the additions in the year to capital assets and capital assets under development is \$419,183 (2008 - \$749,571) contributed and deferred related to capital assets under development. In aggregate, \$2,378,068 (2008 - \$1,973,347) is included in the ending balance of capital assets under development deferred contributions.

13. Internal restrictions on net assets

	<b>2009</b>	<b>2008</b>
Operations contingency fund, beginning of year	\$ 870,000	\$ 688,307
Additions	<u>158,809</u>	<u>181,693</u>
Operations contingency fund, end of year	<u>\$ 1,028,809</u>	<u>\$ 870,000</u>

14. Classification of expenses

	<b>2009</b>	<b>2008</b>
Salaries and benefits	\$ 7,983,407	\$ 5,806,557
Other costs excluding salaries and benefits		
Facility operations	699,141	651,168
Administration and technology	849,702	770,766
Interest on long-term debt	35,036	107,352
Amortization	382,174	342,681
Program including gifts-in-kind of \$418,441 (2008 - \$411,347)	3,219,503	1,415,295
Marketing, promotion and community awareness	828,438	1,781,576
Foothills Emergency Shelter	1,577,330	1,899,168
Mountain Aire Lodge (note 15)	<u>1,140,973</u>	<u>993,108</u>
	<u>\$ 16,715,704</u>	<u>\$ 13,767,671</u>

15. Seed Community of Change, operating as Mountain Aire Lodge

The Society's investment in the Seed Community of Change (operating as Mountain Aire Lodge), a non-profit corporation, is fully consolidated in these consolidated financial statements. During the period, the Society invested \$661,200 (2008 - \$856,061) in the operations and capital assets at Mountain Aire Lodge.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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Mountain Aire Lodge is considered a program of the Society for the purposes of these consolidated financial statements as it operates as a non-profit centre for community change. Qualifying Mustard Seed guests are given the opportunity to participate in the Mountain Aire Lodge program entailing life away from the pressures of the city, steady employment, and lodging. Mountain Aire Lodge operates as a campsite and lodge offering accommodation, food, and fuel to customers. During the second year of operations, Mountain Aire Lodge incurred a deficit of \$806,689 (2008 - \$260,839).

### 16. Other income (loss)

On July 21, 2008, the Lodge at Mountain Aire Lodge caught fire and suffered irreparable damage. The Lodge comprised the restaurant, the convenience store and administrative offices. Building and kitchen equipment housed within, with net book value of \$218,132, and \$73,794, respectively, was lost in the fire. Inventory, with an estimated cost of \$61,107, was also lost in the fire. The remaining \$15,522 loss relates to cash in the cash register and amounts from customers not collectible as the information could not be recovered from the damaged cash register. The motel, housing units, and other assets pertinent to Mountain Aire Lodge operations were not harmed in the fire.

An insurance claim has been submitted for losses incurred in the fire. The insurance claim is still being processed and the amount of proceeds to be received is unknown; therefore, no amount has been accrued for in the consolidated financial statements.

During the year, the Mustard Seed Ministries (Edmonton) reached a settlement in respect of a prior year's legal action and recovered costs incurred of \$375,000.

### 17. Contributed goods and services

#### **Contributed goods included in the consolidated financial statements**

The Society receives contributions of goods that have an independently determinable fair value. These items that are ready for use in Society programs have been recorded as revenue of \$418,441 (2008 - \$411,347). In the case where an item is received that is immediately resold for cash, the donation is considered cash and not included in the gift-in-kind classification.

#### **Contributed goods and services excluded from the consolidated financial statements**

Meals, food and clothing were donated in order to assist the Society with providing services to those in need. Because of the difficulty in determining their fair value, these goods and services have not otherwise been recognized in these consolidated financial statements.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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For the purpose of Section 7(2) of the Charitable Fundraising Regulations, the following amounts are disclosed:

	<b>2009</b>
Gross contributions received, exclusive of government contributions	\$ 12,065,912
Total direct expenses incurred for soliciting contributions	\$ 881,670
Remuneration to employees whose principal duties involve fundraising	\$ 595,462

### 18. Related party transactions

During the year, the Society has received legal services in the amount of \$117,254 (2008 - \$15,853) from an entity controlled by a member of the Board of Directors. The charges have been made in the normal course of operations and have been measured at the exchange amount, which is determined by the terms of the legal services provided by the related entity.

The mortgage with Baptist Union Development Foundation (the "Foundation") was fully repaid during the year. The Foundation is related to the Society because it is under common significant influence with the Society. The terms and payments made under the mortgage agreement held with the Foundation were measured at the exchange amount which is comparable to the fair value of mortgages with similar terms and conditions.

### 19. Commitments

Under a lease agreement, the Mustard Seed (Calgary) Street Ministry is obligated to pay monthly lease payments of \$18,685 expiring March 31, 2010 for the Foothills Shelter. An application for continued funding was made with the Alberta Housing and Urban Affairs division of the provincial government to help cover the cost of leasing the shelter.

The Mustard Seed Ministries (Edmonton) leases office and storage space under an agreement expiring February 28, 2010 for \$37,921 to expiry.

### 20. Financial instruments

#### (a) Fair values

The fair values of the Society's cash and cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The fair value of the demand bank loan and mortgages is estimated to approximate their carrying values as they bear interest at market rates for similar debt.

# Mustard Seed Street Ministry Society

(a not-for-profit organization)

## Notes to Consolidated Financial Statements

March 31, 2009

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(b) Credit risk

The financial instruments that potentially subject the Society to a significant concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable. The Society mitigates its exposure to credit loss by placing its cash and cash equivalents and restricted cash with major financial institutions.

Accounts receivable has no significant concentration of credit risk with any one party. As such, credit risk is considered low.

(c) Interest rate risk

The Society is exposed to interest rate cash flow risk to the extent that the credit facility and demand bank loan are at floating rates.

The Society is exposed to interest rate price risk to the extent that the guaranteed investment certificate and mortgages outstanding are at a fixed interest rate.

(d) Liquidity risk

Liquidity risk relates to the risk the Society will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities, demand bank loans and long-term debt. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations.

21. Capital disclosures

The Society's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide for the needs of the inner city's less fortunate as outlined in note 1.

The Society's capital consists of net assets and deferred contributions. Certain capital has been internally (note 2[g] and 13) or externally (note 8) restricted for specific future purposes. The Society expects its current capital resources will be sufficient to continue as a going concern through its current and subsequent reporting periods.

22. Retirement plan

The Society matches eligible employee pension at a defined contribution rate of 6% of gross employee salary. The executives of the Society are eligible to participate in the pension plan, a select few with matching options to a maximum rate of 8%. In addition, all full-time permanent staff who have been employed for two or more years are eligible to participate. There is no pension liability at the year-end because the Society has matched contributions at the time of payroll remittance.

# Mustard Seed Street Ministry Society

*(a not-for-profit organization)*

## Notes to Consolidated Financial Statements

March 31, 2009

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### 23. Subsequent events

- (a) Effective April 1, 2009, the Society has commenced operations under the new operating and asset holding structure for the Mustard Seed. The new structure, more commonly known as the Seed.ca structural model, involved separating the Society's major assets from the Society's operations. The Seed Community of Change, operating as Mountain Aire Lodge, wound up its operations and transferred its operations into a for-profit entity consistent with the substance of the activities performed at the Lodge. The three entity structure including a charitable foundation holding assets, a charitable organization managing Society programs and the for-profit entity will assist the Society in achieving all of its objectives in an organized and appropriate manner in response to planned growth in new and continuing program areas. The for-profit entity is owned by the charitable foundation and steps have been taken to protect the charitable status of the foundation.
- (b) On April 3, 2009, the Society entered into an agreement with an existing tenant for an early termination of the lease and the cancellation of any option to renew for total cash consideration of \$500,000 payable in two instalments. The first instalment of \$200,000 was paid upon the execution of the agreement and the second instalment of \$300,000 will be payable by December 8, 2009 if all conditions of the agreement have been met.