

Horizon West Housing Society

Financial Statements
March 31, 2012



June 15, 2012

Independent Auditor's Report

To the Directors of Horizon West Housing Society

We have audited the accompanying financial statements of Horizon West Housing Society (the "Society") which comprise the statement of financial position as at March 31, 2012 and the statements of operations and changes in fund balances and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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**Basis for Qualified Opinion**

For 2011 and 2012, the Society amortizes its buildings and furniture and fixtures, presented as part of property and equipment on the statement of financial position, at a rate equal to the annual principal reduction of the related mortgages as specified under agreements with Canada Mortgage and Housing Corporation ("CMHC"), the financier of the mortgages. For both 2011 and 2012, this constitutes a departure from Canadian generally accepted accounting principles. In order to be consistent with the Society's policy on buildings and furniture and fixtures not financed by CMHC, buildings would need to be amortized at 4% declining balance and furniture and fixtures would need to be amortized on a 20% straight-line basis. The Society records indicate that if amortization on the building had been provided on the basis of 4% declining balance and 20% straight-line for furniture and fixtures, amortization for the current year would have decreased by \$357,370 (2011 – \$338,715), accumulated amortization would have decreased by \$950,552 (2011 – \$592,936) and the closing balance of fund balances would have been increased by \$950,552 (2011 – \$592,936).

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Horizon West Housing Society as at March 31, 2012 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Horizon West Housing Society

Statement of Financial Position

As at March 31, 2012

	2012 \$	2011 \$
Assets		
Current		
Cash (overdraft)	122,849	148,300
Restricted cash (note 9)	124,149	180,817
Subsidy and miscellaneous receivables	28,349	28,005
Prepaid expenses	518	1,076
	<u>275,865</u>	<u>358,198</u>
Property and equipment (note 4)	<u>1,699,588</u>	<u>2,099,968</u>
	<u>1,975,453</u>	<u>2,458,166</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	72,928	34,473
Accrued interest payable	6,881	14,595
Excess subsidy due to CMHC (note 3)	-	1,381
Deferred revenue	20,665	19,741
Security deposits payable	64,050	58,912
Current portion of long-term debt (note 5)	474,892	426,758
	<u>639,416</u>	<u>555,860</u>
Long-term debt (note 5)	<u>2,947,401</u>	<u>3,422,044</u>
	<u>3,586,817</u>	<u>3,977,904</u>
Fund balances		
Internally restricted invested in property and equipment	(1,722,705)	(1,748,833)
Unrestricted	1,277	48,278
Restricted Replacement Reserve (note 9)	110,064	180,817
	<u>(1,611,364)</u>	<u>(1,519,738)</u>
	<u>1,975,453</u>	<u>2,458,166</u>

Approved by the Board of Directors

Signed

Wade Paget

Signed

Chris Wallace

Horizon West Housing Society

Statement of Operations and Changes in Fund Balances

For the year ended March 31, 2012

	General Fund \$	Capital Fund \$	2012 \$	2011 \$
Revenue				
Residential rental – income tested	362,327		362,327	297,046
Residential rental – non-income tested	329,578		329,578	375,880
Office rental	2,500		2,500	2,500
Private landlord rent supplement (PLRS)	308,693		308,693	321,726
CMHC – Section 95 assistance	134,638		134,638	83,848
CMHA Rent Subsidy	4,630		4,630	7,950
Parking	26,647		26,647	27,078
Laundry	14,777		14,777	14,296
Other	102,834		102,834	104,241
Interest	2,175		2,175	1,663
	<u>1,288,799</u>	<u>-</u>	<u>1,288,799</u>	<u>1,236,228</u>
Expenditures				
Amortization	-	426,758	426,758	407,989
Advertising, promotion and publicity	8,521		8,521	4,255
Bad debts	5,842		5,842	9,607
Insurance	23,103		23,103	25,354
Interest on long-term debt	156,066		156,066	180,619
Office and administration	25,467		25,467	27,540
Professional fees	16,525		16,525	28,017
Property taxes	31,998		31,998	33,388
Repairs and replacements	223,054		223,054	198,233
Salaries and employee benefits	273,756		273,756	229,380
Telephone	4,175		4,175	4,422
Travel	3,949		3,949	3,439
Utilities	181,211		181,211	164,798
	<u>953,667</u>	<u>426,758</u>	<u>1,380,425</u>	<u>1,317,041</u>
Excess (deficiency) revenue over expenditures	335,132	(426,758)	(91,626)	(80,813)
Fund balances – Beginning of year	229,095	(1,748,833)	(1,519,738)	(1,438,925)
Interfund transfer – fixed asset additions	(26,377)	26,377	-	-
Interfund transfer-repayment of long-term debt	(426,509)	426,509	-	-
Fund balances – End of year	111,341	(1,722,705)	(1,611,364)	(1,519,738)

Horizon West Housing Society

Statement of Cash Flows

For the year ended March 31, 2012

	2012 \$	2011 \$
Cash provided by (used in)		
Operating activities		
Deficiency excess of revenue over expenditures for the year	(91,626)	(80,813)
Item not affecting cash		
Amortization	426,758	407,989
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	335,132	327,176
Changes in non-cash working operating items		
Subsidy and miscellaneous receivables	(344)	437,435
Prepaid expenses	558	83
Accounts payable and accrued liabilities	38,454	12,423
Accrued interest payable	(7,714)	(2,188)
Excess subsidies due to CMHC	(1,381)	(3,305)
Deferred revenue	924	(2,042)
Security deposits payable	5,138	295
	<hr/>	<hr/>
	370,767	769,877
Financing activities		
Repayments to related party	-	(191,547)
Repayment of long-term debt	(426,509)	(407,989)
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	(426,509)	(599,536)
Investing activities		
Purchase of property and equipment	(26,377)	-
Decrease in restricted cash	56,668	42,595
	<hr/>	<hr/>
	30,291	42,595
(Decrease) increase in cash	<hr/>	<hr/>
	(25,451)	212,936
Cash – Beginning of year	<hr/>	<hr/>
	148,300	(64,636)
Cash – End of year	<hr/>	<hr/>
	122,849	148,300
Supplementary information		
Interest paid	163,780	182,807

Horizon West Housing Society

Notes to Financial Statements

March 31, 2012

1 Basis of operations

The Horizon West Housing Society (the “Society”) was incorporated on March 25, 1998 under the Societies Act of Alberta and commenced operations on August 1, 1998. The Society is registered as a not-for-profit organization and is exempt from income taxes under Section 149 (1) (i) of the Income Tax Act of Canada. The Society acquires land and buildings for the purpose of providing appropriate homes in an integrated environment for people with mental health challenges or other special needs.

2 Significant accounting policies

The financial statements of the Society have been prepared by management in accordance with Canadian generally accepted accounting principles except for the specific policies and practices as outlined by Canada Mortgage and Housing Corporation (“CMHC”), which require that properties be amortized at a rate equal to the annual principal reduction of the related mortgages. In this respect, these financial statements are not, and are not intended to be, in accordance with Canadian generally accepted accounting principles.

a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant.

b) Fund accounting

The Society follows the Restricted Fund Method for accounting for contributions. The Society maintains the following Funds:

- The General Fund contains the assets, liabilities, revenue and expenses related to the Society’s operating activities.
- The Capital Fund contains the assets, liabilities, revenue and expenses related to the Society’s property and equipment.

Horizon West Housing Society

Notes to Financial Statements

March 31, 2012

c) Revenue recognition

Restricted contributions are recognized as revenue of the appropriate restricted fund when received or if no restricted fund exists, they are recognized in the General Fund when the related expenditures are incurred. Unrestricted contributions are recognized as revenue of the General Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from rental of the properties, including subsidies is recognized in the period earned, on a pro-rata basis over the lease term in the General Fund.

d) Contributed assets, materials and services

Contributed assets, materials and services are recorded at fair value at the date of the donation only when the fair value can be reasonably estimated and when the assets, materials and services are used in the normal course of the Society's operations and would otherwise have been purchased.

e) Property and equipment

Property and equipment financed by CMHC are recorded at cost and buildings and furniture and fixtures are amortized at a rate equal to the annual principal reduction of the related mortgages as specified under agreements with CMHC.

Property and equipment which are not funded by CMHC or RRAP loans are recorded at cost and are amortized over their estimated useful life as follows:

Buildings	4% declining balance
Furniture and equipment	20% straight line

f) Allocated expenditures

In the course of its operations, management allocates certain expenditures between Horizon Housing Society and Horizon West Housing Society on the basis of its best estimates of the utilization of staff and services. The method of allocation is consistent with prior years.

g) Cash

Cash consist of cash on hand and bank balances.

h) Financial instruments

The Society has chosen to follow the disclosure requirements of CICA Handbook Section 3861, instead of new expanded rules set out in Sections 3862 and 3863, in keeping with the options provided by Handbook Sections 3862.43(c) and 3863.40(c).

Horizon West Housing Society

Notes to Financial Statements

March 31, 2012

The Society's financial instruments recognized on the balance sheet consist of cash and restricted cash, subsidy and miscellaneous receivables, due to related party, accounts payable and accrued liabilities, accrued interest payable, excess subsidy due to CMHC, security deposits payable and long-term debt. The Society has classified its financial instruments into the following categories:

Category	Financial Instrument
Held for trading	Cash and restricted cash
Loans or receivables	Subsidy and miscellaneous receivables,
Financial liabilities	Accounts payable and accrued liabilities, accrued interest payable, excess subsidy due to CMHC, due to related party, security deposits payable and long-term debt

All financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of the financial instruments is based on their classification. Held for trading financial assets are measured at fair value with unrealized gains or losses recognized in the statement of operations. Loans or receivable and financial liabilities are measure at cost or amortized cost.

3 CMHC assistance

During the year, the Society obtained financial assistance from CMHC. In any year that the Society has revenue in excess of expenses, in a specific CMHC funded project and calculated on a project by project basis, it may be asked to refund the excess. At year end, the best estimate of subsidy due to CMHC has been calculated by reference to formulae prescribed by the relevant funder. Subsidy payable at year end, is \$nil (2011 – \$1,381). The estimated subsidy repayable is recorded against the subsidy revenue received during the year.

4 Property and equipment

			2012	2011
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Land	1,030,318	-	1,030,318	1,030,318
Building	5,320,633	4,682,028	638,605	1,063,422
Furniture and fixtures	50,799	20,134	30,665	6,228
	6,401,750	4,702,162	1,699,588	2,099,968

Horizon West Housing Society

Notes to Financial Statements

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5 Long-term debt

	2012 \$	2011 \$
1.67% first mortgage due to CMHC, payable in equal monthly instalments of \$39,781, including interest. Terms of the mortgage are up for renewal in April 2017. Amortization period remaining is six years.	2,760,053	3,148,659
5.39% CMHC mortgage, repayable in equal monthly instalments of \$1,997, including interest. Terms of the mortgage are up for renewal in April 2015. Amortization period remaining is 12 years.	213,614	225,805
5.39% CMHC mortgage, repayable in equal monthly instalments of \$4,203, including interest. Terms of the mortgage are up for renewal in April 2015. Amortization period remaining is 12 years.	448,626	474,338
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	3,422,293	3,848,802
Less: Current portion	(474,892)	(426,758)
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	2,947,401	3,422,044
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The land and buildings are pledged as collateral for all mortgages and have a carrying value of \$1,668,923 (2011 – \$2,093,741).

Principal repayments required under the terms of the above mortgages and loans, assuming the mortgages are renewed under similar terms, are as follows:

	\$
2013	474,892
2014	484,372
2015	494,061
2016	504,000
2017 and thereafter	1,464,968
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	3,422,293
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Horizon West Housing Society

Notes to Financial Statements

March 31, 2012

6 Related party transactions

The Society and Horizon Housing Society (“HHS”) have the same Board of Directors and are under common management. HHS has not been consolidated in the Society’s financial statements, but its financial statements are available upon request. HHS is a registered charity incorporated under the Society’s Act of Alberta and is exempt from income taxes under Section 149(1) (f) of the Income Tax Act of Canada.

HHS acquires land and buildings for the charitable purpose of providing residential housing opportunities for persons with mental illness. In support of this primary objective and in support of the principle of community integration, housing is also provided for other people in need, including, but not limited to, persons with physical disabilities and persons below the poverty line.

The following is condensed financial information included in the financial statements of HHS as at March 31, 2012. These statements were prepared using the same accounting policies as the Society.

	2012 \$	2011 \$
Financial position		
Total assets	38,581,823	39,520,670
Total liabilities	8,921,446	8,967,623
Total fund balances	29,660,377	30,553,047
	<u>38,581,823</u>	<u>39,520,670</u>
Results of operations		
Revenue	3,536,016	3,973,043
Expenditures	4,428,686	4,053,235
Deficiency of revenue over expenditures	<u>(892,670)</u>	<u>(80,192)</u>
Cash flows		
Cash flows from operating activities	442,373	915,001
Cash flows utilized in investing activities	(311,415)	(12,977,887)
Cash flows utilized in financing activities	(211,034)	4,371,967
Decrease in cash	<u>(80,076)</u>	<u>(7,690,919)</u>

7 Goods and services tax

The Society is designated as a municipality pursuant to subsection 259(1) of the Excise Tax Act, entitling it to a rebate of 100% of goods and services tax (GST) paid on property and services used to supply residential units on rent-geared-to-income basis. GST is accounted for in accordance with the guidelines issued by CMHC, so the GST paid (the refundable portion) is recorded in the GST recoverable account and is included in the subsidiary and miscellaneous receivable balance for financial statement purposes.

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8 Financial instruments

The Society holds various forms of financial instruments as disclosed in note 2. The nature of these instruments and its operations expose the Society to risks as follows:

Interest rate risk

The Society is exposed to interest rate risk through its fixed rate borrowings as the value of long-term debt will fluctuate as a result of changes in market rates. At March 31, 2012, the Society had fixed interest rates on its long-term obligations at effective rates of 1.67% to 5.39% (2011 – 4.31% to 5.39%).

The Society is also exposed to interest rate risk through variable rate borrowings on long-term debt as the interest payments will fluctuate as a result of changes in market rates. As at March 31, 2012 if interest rates had increased or decreased by 1%, with all other variables held constant, interest paid in the year would change by \$38,488.

Rates on the debt are consistent with current rates available on similar loans with similar terms, therefore in management's opinion; the fair value of the Society's fixed long-term debt obligations approximates their carrying value.

Credit risk

During the year, all of the Society's cash was held at one financial institution. Accordingly, the Society is subject to the risks associated with that financial institution.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they become due. The Society's approach to managing liquidity risk is to ensure that it receives sufficient revenues to meet debt obligations.

Horizon West Housing Society

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9 Externally restricted fund balances

Externally Restricted Replacement Reserve – Under agreements with CMHC, the Society is required to make annual contributions to a separate replacement reserve account. These funds, along with accumulated interest, must be held in a separate bank account and/or invested only in accounts or instruments insured by the Canada Deposit Insurance Corporation or as may otherwise be approved by CMHC. The funds in the accounts may only be used as approved by CMHC. Withdrawals are applied to interest first and then principal.

	2012 \$	2011 \$
Balance – Beginning of the year	180,817	223,413
Additions	70,000	80,000
Interest	1,360	981
Repairs and maintenance	(142,113)	(123,577)
Balance – End of year	<u>110,064</u>	<u>180,817</u>

10 Renovation and Retrofit Initiative

In 2010, the Society received a grant from government funding from CMHC for Renovation and Retrofit of \$426,494. The Society was required to register a collateral mortgage in favour of CMHC for the value of the funds received.

As long as the Society continues to maintain its not-for-profit status and continues to own, operate, use and maintain the lands and premises to provide housing benefits to low and moderate-income households, for a period of at least 10 years it will not be in breach of the terms of the contribution agreement. Failure to comply with any of these conditions on or before January 19, 2020 would constitute a breach and the entire amount of the contribution would, at the option of the CMHC, be immediately due and payable.

11 Capital management

The Society defines capital as the amounts included in its Fund balances.

The Society's objective when managing capital is to safeguard the Society's ability to continue as a going concern so that they can provide the appropriate level of benefits and services to its stakeholders.

A portion of the Society capital is restricted in that the organization is required to meet certain requirements included to utilize its externally restricted funds (note 10).

The Society sets the amount of fund balances in proportion to risk, manages the fund structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

