

# **Horizon West Housing Society**

Financial Statements  
**March 31, 2014 and 2013**



June 9, 2014

## **Independent Auditor's Report**

### **To the Directors of Horizon West Housing Society**

We have audited the accompanying financial statements of Horizon West Housing Society, which comprise the statements of financial position as at March 31, 2014 and the statements of operations and changes in fund balances and cash flows for the year ended March 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

---

*PricewaterhouseCoopers LLP*  
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825



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

**Basis for qualified opinion**

The Society amortizes certain its buildings and furniture and fixtures, which represented as at March 31, 2014 \$5,508,480 (March 31, 2013 - \$5,388,478) of the property and equipment cost, 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 March 31, 2014, this constitutes a departure from Canadian accounting standards for not-for-profit organizations. 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. 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 would have decreased and excess revenue over expenditure would have increased for the current year by \$263,888 (March 31, 2013 – \$406,032), property and equipment would have increased by \$1,619,781 (March 31, 2013 – \$1,355,893) and the closing balance of fund balances would have been increased by \$1,619,781 (March 31, 2013 – \$1,355,893).

**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, 2014 and the results of its operations and cash flows for the years ended March 31, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# Horizon West Housing Society

## Statements of Financial Position

As at March 31, 2014 and 2013

---

	2014 \$	2013 \$
<b>Assets</b>		
<b>Current</b>		
Cash	108,613	198,806
Restricted cash (note 10)	161,751	154,338
Subsidy and miscellaneous receivables	33,307	20,200
Prepaid expenses	1,596	21,775
	<hr/>	<hr/>
	305,267	395,119
<b>Property and equipment</b> (note 4)	<hr/>	<hr/>
	1,030,318	1,242,360
	<hr/>	<hr/>
	1,335,585	1,637,479
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	100,166	54,770
Accrued interest payable	5,287	6,048
Due to Horizon Housing Society (note 6)	23,615	-
Excess subsidies due to CMHC and AMA (note 3)	-	8,921
Unearned revenue	18,493	25,028
Security deposits payable	62,856	62,887
Current portion of long-term debt (note 5)	493,611	483,834
	<hr/>	<hr/>
	704,028	641,488
<b>Long-term debt</b> (note 5)	<hr/>	<hr/>
	1,968,930	2,463,034
	<hr/>	<hr/>
	2,672,958	3,104,522
<b>Fund balances</b>		
Unrestricted	(39,677)	20,639
Invested in property and equipment	(1,432,223)	(1,704,508)
Internally restricted (note 9)	-	62,488
Externally restricted (note 10)	134,527	154,338
	<hr/>	<hr/>
	(1,337,373)	(1,467,043)
	<hr/>	<hr/>
	1,335,585	1,637,479
	<hr/>	<hr/>

**Approved by the Board of Directors**

*Signed*

Wade Paget

*Signed*

Ian MacDonald

**Horizon West Housing Society**  
**Statements of Operations and Changes in Fund Balances**  
**For the years then ended March 31, 2014 and 2013**

	General Fund \$	Capital Fund \$	2014 \$	2013 \$
<b>Revenue</b>				
Rental revenue	700,318	-	700,318	706,045
Subsidy revenue (note 11)	472,746	-	472,746	435,730
Sundry revenue	148,495	-	148,495	147,060
Interest	2,111	-	2,111	1,602
	1,323,670	-	1,323,670	1,290,437
Contribution from Horizon Housing Society (note 6)	-	-	-	100,000
	1,323,670	-	1,323,670	1,390,437
<b>Expenditures</b>				
Amortization	-	332,044	332,044	474,274
Bad debts	5,155	-	5,155	3,742
Insurance	22,225	-	22,225	23,722
Interest on long-term debt	66,687	-	66,687	75,517
Office and administration	64,940	-	64,940	55,672
Property taxes	21,916	-	21,916	26,409
Repairs and replacements	201,396	-	201,396	137,953
Salaries and employee benefits	286,652	-	286,652	261,046
Utilities	192,985	-	192,985	187,781
	861,956	332,044	1,194,000	1,246,116
<b>Excess (deficiency) revenue over expenditures</b>	461,714	(332,044)	129,670	144,321
<b>Fund balances – Beginning of year</b>	237,465	(1,704,508)	(1,467,043)	(1,611,364)
Interfund transfer – fixed asset additions	(120,002)	120,002	-	-
Interfund transfer-repayment of long-term debt	(484,327)	484,327	-	-
<b>Fund balances – End of year</b>	94,850	(1,432,223)	(1,337,373)	(1,467,043)

**Horizon West Housing Society**  
**Statements of Cash Flows**  
**For the years then ended March 31, 2014 and 2013**

---

	2014 \$	2013 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenditures for the year	129,670	144,321
Item not affecting cash		
Amortization	332,044	474,274
	<hr/>	<hr/>
	461,714	618,595
Changes in non-cash working operating items		
Subsidy and miscellaneous receivables	(13,107)	8,149
Prepaid expenses	20,179	(21,257)
Accounts payable and accrued liabilities	45,396	(18,158)
Accrued interest payable	(761)	(833)
Due to/from Horizon Housing Society	23,615	
Excess subsidies due to CMHC and AMA	(8,921)	8,921
Unearned revenue	(6,535)	4,363
Security deposits payable	(31)	(1,163)
	<hr/>	<hr/>
	521,549	598,617
<b>Financing activity</b>		
Repayment of long-term liabilities	(484,327)	(475,425)
<b>Investing activities</b>		
Purchase of property and equipment	(120,002)	(17,046)
(Increase) decrease in restricted cash	(7,413)	(30,189)
	<hr/>	<hr/>
	(127,415)	(47,235)
<b>(Decrease) increase in cash</b>	(90,193)	75,957
<b>Cash – Beginning of year</b>	<hr/>	<hr/>
	198,806	122,849
<b>Cash – End of year</b>	<hr/>	<hr/>
	108,613	198,806
<b>Supplementary information</b>		
Interest paid	67,448	76,350

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 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 (note 9 and 10).
- The Capital Fund contains the assets, liabilities, revenue and expenses related to the Society’s property and equipment (note 9 and 10).

#### 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.

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 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. The value of contributed assets, materials and services in 2013 was \$nil (2013- \$nil).

### e) Property and equipment

Property and equipment that are under the agreement with 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.

Capital improvements funded by RRAP loans are amortized on a 4% straight line basis.

Property and equipment that are not under the agreement with CMHC 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 consists of cash on hand and bank balances.

### h) Financial instruments

The Society initially measures financial assets and financial liabilities at their fair value. It subsequently measures all its financial liabilities at amortized cost. The financial assets subsequently measured at amortized cost include cash, restricted cash, subsidy and miscellaneous receivables. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, accrued interest payable, excess subsidy due to CMHC, security deposits payable and long-term debt.



# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 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 (2013 – \$8,921). The estimated subsidy repayable is recorded against the subsidy revenue received during the year.

### 4 Property and equipment

	<b>March 31, 2014</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Land	1,030,318	-	1,030,318
Building	5,457,681	5,457,681	-
Furniture and fixtures	50,799	50,799	-
	<hr/> 6,538,798	<hr/> 5,508,480	<hr/> 1,030,318

	<b>March 31, 2013</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Land	1,030,318	-	1,030,318
Building	5,337,679	5,151,824	185,855
Furniture and fixtures	50,799	24,612	26,187
	<hr/> 6,418,796	<hr/> 5,176,436	<hr/> 1,242,360

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 5 Long-term debt

	March 31, 2014 \$	March 31, 2013 \$
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 4 years.	1,883,209	2,325,227
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 10 years.	186,594	200,221
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 10 years.	392,738	421,420
	<hr/>	<hr/>
	2,462,541	2,946,868
Less: Current portion	(493,611)	(483,834)
	<hr/>	<hr/>
	1,968,930	2,463,034
	<hr/>	<hr/>

The land and buildings are pledged as collateral for all mortgages and have a carrying value of \$1,030,318 (2013 – \$1,216,173).

Principal repayments required under the terms of the above mortgages and loans are as follows:

	\$
2015	493,611
2016	991,993
2017	464,606
2018	512,331
2019 and thereafter	-
	<hr/>
	2,462,541
	<hr/>

### 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.

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

The following is condensed financial information included in the financial statements of HHS as at March 31, 2014. These statements were prepared using the same accounting policies as the Society.

	March 31, 2014 \$	March 31, 2013 \$
<b>Financial position</b>		
Total assets	37,877,593	38,453,934
Total liabilities	8,217,464	8,488,173
Total fund balances	29,660,129	29,965,761
	<u>37,877,593</u>	<u>38,453,934</u>
<b>Results of operations</b>		
Revenue	3,879,736	4,583,151
Expenditures	4,185,368	4,277,767
Excess (Deficiency) of revenue over expenditures	<u>(305,632)</u>	<u>305,384</u>
<b>Cash flows</b>		
Cash flows from operating activities	814,584	1,497,288
Cash flows utilized in investing activities	(2,244,745)	(54,619)
Cash flows utilized in financing activities	(313,981)	(296,172)
(Decrease) increase in cash	<u>(1,744,142)</u>	<u>1,146,497</u>

During the year, Society received as contributions \$nil (2013 - \$100,000) from HHS to increase replacement reserve funds. Balances due to related party as at March 31, 2014 were \$23,615 (2013 - \$nil), are non-interest bearing, unsecured and have no set terms of repayment.

## 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-g 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 subsidy and miscellaneous receivable balance for financial statement purposes.

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 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, 2014, the Society had fixed interest rates on its long-term obligations at effective rates of 1.67% to 5.39% (2013 – 1.67% to 5.39%). The Society also has non-interest bearing mortgage with interest calculated at 8% in the event of default.

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, 2014 if interest rates had increased or decreased by 1%, with all other variables held constant, interest paid in the year would change by \$24,625.

#### 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.

### 9 Internally restricted fund balances

*Internally Restricted Replacement Reserve* - A replacement reserve has been established by the Board of Directors to facilitate the repair or replacement of major building components as approved by the Board of Directors as follows:

	2014 \$	2013 \$
<b>Balance – Beginning of the year</b>	62,488	-
Internally restricted by the Board of Directors during the year	-	100,000
Expended on repairs and replacement	(62,678)	(37,627)
Other	190	115
<b>Balance – End of year</b>	<u>-</u>	<u>62,488</u>

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### 10 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.

	2014 \$	2013 \$
<b>Balance – Beginning of the year</b>	154,338	110,064
Additions	150,000	100,000
Interest	1,356	805
Repairs and maintenance	(171,167)	(56,531)
<b>Balance – End of year</b>	<u>134,527</u>	<u>154,338</u>

### 11 Subsidy schedule

	2014 \$	2013 \$
<b>Subsidy revenue</b>		
Private landlord rent supplement (PLRS)	358,122	341,503
CMHC - Section 95 assistance	108,254	90,412
CMHA rent subsidy	6,370	3,815
	<u>472,746</u>	<u>435,730</u>

### 12 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.

# Horizon West Housing Society

## Notes to Financial Statements

March 31, 2014 and 2013

---

### **13 Government Remittances**

Government remittances consist of sales taxes and payroll withholding taxes required to be paid to government authorities and are recognized when the amounts become due. In respect of government remittances outstanding as at March 31, 2014, \$3,441 (2013- \$6,474) is included within accounts payable and accrued liabilities.

### **14 Comparatives**

Certain comparative figures have been restated to conform to the current year's presentation.

