

Horizon West Housing Society

Financial Statements
March 31, 2016



June 13, 2016

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 statement of financial position as at March 31, 2016 and the statements of operations and changes in fund balances and cash flows for the year then ended, 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.

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

Basis for qualified opinion

As discussed in note 2(e), the Society amortizes certain of its buildings and furniture and fixtures, which represented \$5,688,923 of the property and equipment cost as at March 31, 2016 (2015 – \$5,549,963), 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. 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 a 4% declining balance and furniture and fixtures would need to be amortized on a 20% straight line. Based on a 4% declining balance method of depreciation for buildings and a 20% straight line method of depreciation for furniture and fixtures, amortization should be decreased by \$70,509 in 2016 (2015 – increase of \$26,558) and excess revenue over expenditures should be increased for the current year by \$70,509 (2015 – decrease of \$26,568), property and equipment should be increased by \$1,663,721 (2015 – \$1,593,212) and the closing balance of fund balances should be increased by \$1,663,721 in 2016 (2015 – \$1,593,212).

Our audit opinion on the financial statements for the year ended March 31, 2015 was modified accordingly because of the effects of this matter.

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, 2016 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Horizon West Housing Society

Statement of Financial Position

As at March 31, 2016

	2016 \$	2015 \$
Assets		
Current		
Cash	84,606	75,333
Restricted cash (note 3)	223,936	215,507
Subsidy and miscellaneous receivables	22,381	16,839
Prepaid expenses	14,035	1,455
	<hr/>	<hr/>
	344,958	309,134
Long-term investment	54,864	54,000
Property and equipment (note 5)	1,030,318	1,030,318
	<hr/>	<hr/>
	1,430,140	1,393,452
Liabilities		
Current		
Accounts payable and accrued liabilities	48,566	86,812
Accrued interest payable	2,790	4,448
Due to Horizon Housing Society (note 8)	125,953	37,903
Unearned revenue	18,112	29,370
Security deposits payable	64,274	64,171
Current portion of long-term debt (note 6)	517,336	507,470
	<hr/>	<hr/>
	777,031	730,174
Long-term debt (note 6)	943,622	1,461,460
Deferred contributions (note 7)	54,000	54,000
	<hr/>	<hr/>
	1,774,653	2,245,634
Fund deficits		
Unrestricted	(77,084)	(69,244)
Invested in property and equipment	(430,640)	(938,612)
Externally restricted (note 11)	163,211	155,674
	<hr/>	<hr/>
	(344,513)	(852,182)
	<hr/>	<hr/>
	1,430,140	1,393,452
Commitments (note 13)		

Approved by the Board of Directors

Signed

Wade Paget

Signed

Ian MacDonald

The accompanying notes are an integral part of these financial statements.

Horizon West Housing Society
Statement of Operations and Changes in Fund Balances
For the year ended March 31, 2016

	General Fund \$	Capital Fund \$	2016 \$	2015 \$
Revenue				
Rental revenue	741,688	-	741,688	737,063
Subsidy revenue (note 12)	651,566	-	651,566	440,311
Other revenue	149,697	9,051	158,748	155,891
Interest	2,759	-	2,759	1,648
	<u>1,545,710</u>	<u>9,051</u>	<u>1,554,761</u>	<u>1,334,913</u>
Expenditures				
Amortization	-	138,960	138,960	41,483
Bad debts	2,264	-	2,264	2,356
Insurance	38,671	-	38,671	20,473
Interest on long-term debt	36,920	-	36,920	57,324
Office and administration	90,025	-	90,025	56,230
Property taxes	16,330	-	16,330	21,069
Repairs and replacements	150,783	-	150,783	206,988
Salaries and employee benefits	395,372	-	395,372	256,417
Utilities	177,767	-	177,767	187,383
	<u>908,132</u>	<u>138,960</u>	<u>1,047,092</u>	<u>849,723</u>
Excess revenue over expenditures	637,578	(129,909)	507,669	485,190
Fund deficits – Beginning of year	86,430	(938,612)	(852,182)	(1,337,372)
Interfund transfer – fixed asset additions	(129,909)	129,909	-	-
Interfund transfer – repayment of long-term debt	(507,972)	507,972	-	-
Fund deficits – End of year	<u>86,127</u>	<u>(430,640)</u>	<u>(344,513)</u>	<u>(852,182)</u>

The accompanying notes are an integral part of these financial statements.

Horizon West Housing Society

Statement of Cash Flows

For the year ended March 31, 2016

	2016 \$	2015 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year (General Fund)	637,578	521,407
Changes in non-cash operating items		
Subsidy and miscellaneous receivables	(5,542)	16,468
Prepaid expenses	(12,580)	141
Accounts payable and accrued liabilities	(38,246)	(13,354)
Accrued interest payable	(1,658)	(839)
Due to Horizon Housing Society	88,050	16,730
Unearned revenue	(11,258)	10,877
Deferred contributions	-	54,000
Security deposits payable	103	1,316
	<hr/> 656,447	<hr/> 606,746
Financing activities		
Repayment of long-term liabilities	(507,972)	(493,611)
Contributions restricted for capital assets	9,051	2,824
	<hr/> (498,921)	<hr/> (490,787)
Investing activities		
Purchase of long-term investments	(864)	(54,000)
Addition to restricted cash ¹	(147,389)	(32,383)
	<hr/> (148,253)	<hr/> (86,383)
Increase in cash	9,273	29,576
Cash – Beginning of year	<hr/> 75,333	<hr/> 45,757
Cash – End of year	<hr/> <hr/> 84,606	<hr/> <hr/> 75,333
Supplementary information		
Interest paid	38,578	58,163
Interest received	2,184	1,144

¹\$138,960 (2015 – \$41,483) of property and equipment was purchased with restricted cash.

The accompanying notes are an integral part of these financial statements.

Horizon West Housing Society

Notes to Financial Statements

March 31, 2016

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 Accounting Standards for Not-for-Profit Organizations (“ASNPO”) 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 ASNPO.

a) Use of estimates

The preparation of financial statements in conformity with ASNPO 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 (notes 11 and 12).
- The Capital Fund contains the assets, liabilities, revenue and expenses related to the Society’s property and equipment (notes 11 and 12).

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, 2016

d) Contributed assets, materials and services

Contributed assets are recorded at fair value at the date of contribution when fair value can be reasonably estimated. Contributed 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 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 recognized in the financial statements in 2016 was \$nil (2015 – \$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.

Horizon West Housing Society

Notes to Financial Statements

March 31, 2016

h) Financial instruments

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

Investments consist of guaranteed investment certificates. The guaranteed investment certificates are cashable prior to their maturity date, subject to an interest penalty. Investments are carried at cost with accrued interest recognized directly in the statement of operations as investment income. Investments with maturity within one year have been classified as short-term investments.

3 Restricted cash

Restricted cash is comprised of the following:

	2016 \$	2015 \$
Externally Restricted Replacement Reserve (note 12)	159,662	151,336
Tenant security deposits	64,274	64,171
	<u>223,936</u>	<u>215,507</u>

4 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, it may be asked to refund the excess on a project by project basis. Management estimates the subsidy due to CMHC by reference to formulae prescribed by CMHC. Subsidy payable at year end is \$nil (2015 – \$nil). The estimated subsidy repayable is recorded against the subsidy revenue received during the year. Surplus funds from prior years that the Society was not required to refund, along with any accumulated interest, are held or invested in accounts or instruments insured by the Canada Deposit Insurance Corporation.

Horizon West Housing Society

Notes to Financial Statements

March 31, 2016

5 Property and equipment

	2016		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	1,030,318	-	1,030,318
Building	5,638,124	5,638,124	-
Furniture and fixtures	50,799	50,799	-
	<u>6,719,241</u>	<u>5,688,923</u>	<u>1,030,318</u>
	2015		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	1,030,318	-	1,030,318
Building	5,499,164	5,499,164	-
Furniture and fixtures	50,799	50,799	-
	<u>6,580,281</u>	<u>5,549,963</u>	<u>1,030,318</u>

6 Long-term debt

	2016	2015
	\$	\$
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 2 years.	976,851	1,433,854
3.47% CMHC mortgage, repayable in equal monthly instalments of \$1,844, including interest. Terms of the mortgage are up for renewal in April 2018. Amortization period remaining is 8 years.	155,923	172,340
3.47% CMHC mortgage, repayable in equal monthly instalments of \$3,881, including interest. Terms of the mortgage are up for renewal in April 2018. Amortization period remaining is 8 years.	328,184	362,736
	<u>1,460,958</u>	<u>1,968,930</u>
Less: Current portion	(517,336)	(507,470)
	<u>943,622</u>	<u>1,461,460</u>

The land and buildings are pledged as collateral for all mortgages and have a carrying value of \$1,030,318 (2015 – \$1,030,318).

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

	\$
2017	517,336
2018	568,272
2019	375,350
2020 and thereafter	-
	<u>1,460,958</u>

7 Deferred contributions

Deferred contributions represent externally restricted amounts received that have not yet been spent.

	2016 \$	2015 \$
Balance – Beginning of year	54,000	-
Contributions received in the year	-	<u>54,000</u>
Balance – End of year	<u>54,000</u>	<u>54,000</u>

8 Related party transactions

The Society and Horizon Housing Society ("HHS") have the same Board of Directors and are under common management. 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 purpose of providing appropriate homes in an integrated environment for people with mental health challenges or other special needs.

Horizon West Housing Society

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HHS has not been consolidated in the Society's financial statements. The following is condensed financial information included in the financial statements of HHS as at March 31, 2016. These statements were prepared using the same accounting policies as the Society.

	2016 \$	2015 \$
Financial position		
Total assets	38,696,011	37,380,174
Total liabilities	8,577,767	7,848,156
Total fund balances	30,118,244	29,532,018
	<u>38,696,011</u>	<u>37,380,174</u>
Results of operations		
Revenue	4,824,879	4,284,555
Expenditures	(4,238,653)	(4,412,665)
Excess of revenue over expenditures	<u>586,226</u>	<u>(128,110)</u>
Cash flows		
Cash flows from operating activities	823,621	582,367
Cash flows utilized in investing activities	(133,184)	1,381,734
Cash flows utilized in financing activities	<u>1,408,289</u>	<u>(12,638)</u>
Increase in cash	<u>2,098,726</u>	<u>1,951,463</u>

During the year ended March 31, 2016, The Society was allocated \$314,955 (2015 – \$173,211) by HHS for office and administration and salary and benefits expenses.

	2016 \$	2015 \$
Salaries and benefits expense	243,291	135,941
Office and administration expense	71,664	37,270

The balances due to HHS are non-interest bearing, unsecured and have no set terms of repayment.

9 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, 2016

10 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, 2016, the Society had fixed interest rates on its long-term obligations at effective rates of 1.67% to 3.47% (2015 – 1.67% to 3.47%).

Credit risk

Credit risk is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation. The Society does not consider that it is exposed to undue credit risk.

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.

11 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.

	2016 \$	2015 \$
Balance – Beginning of the year	155,674	134,527
Additions	190,000	150,000
Interest	958	1,030
Capital expenditures and repairs and maintenance	(183,421)	(129,883)
Balance – End of year	<u>163,211</u>	<u>155,674</u>

Horizon West Housing Society

Notes to Financial Statements

March 31, 2016

12 Subsidy schedule

	2016 \$	2015 \$
Subsidy revenue		
Private landlord rent supplement (PLRS)	551,353	346,624
CMHC - Section 95 assistance	99,333	90,822
Other rent subsidies	880	2,865
	<hr/> 651,566	<hr/> 440,311

13 Commitments

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.

14 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, 2016, \$nil (2015 – \$nil) is included within accounts payable and accrued liabilities.

