

Horizon Housing Society

Financial Statements

March 31, 2018



June 8, 2018

Independent Auditor's Report

To the Directors of Horizon Housing Society

We have audited the accompanying financial statements of Horizon Housing Society, which comprise the statement of financial position as at March 31, 2018 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.

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

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Basis for qualified opinion

As discussed in note 2(e), the Society amortizes certain of its buildings and furniture and fixtures, which represented as at March 31, 2018, \$4,495,431 (2017 – \$4,426,701) 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, and Alberta Seniors and Housing (“AS”). This constitutes a departure from 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 and excess of revenue over expenditures should be increased for the current year by \$34,298 (2017 – \$38,311), property and equipment should be decreased by \$955,287 (2017– \$989,585) and closing balance of fund balances should be decreased by \$955,287 in 2018 (2017– \$989,585).

Our audit opinion on the financial statements for the year ended March 31, 2018 was modified accordingly because of the effects of this matter.

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 Housing Society as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Horizon Housing Society

Statement of Financial Position

As at March 31, 2018

	2018 \$	2017 \$
Assets		
Current		
Cash	3,205,711	6,198,361
Restricted cash (note 3)	1,061,399	959,398
Short-term investment	300,000	300,000
Subsidy and miscellaneous receivables	196,142	77,163
Prepaid expenses	268,653	252,507
Due from Horizon West (note 9)	108,467	126,770
	<u>5,140,372</u>	<u>7,914,199</u>
Intangible asset (note 6)	19,665	22,072
Property and equipment (note 5)	<u>53,113,367</u>	<u>41,246,192</u>
	<u>58,273,404</u>	<u>49,182,463</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	2,322,140	417,791
Holdback payable	1,254,417	-
Accrued interest payable	24,351	25,563
Excess subsidies due to CMHC and AS (note 4)	-	10,571
Unearned revenue	117,851	109,694
Security deposits payable	182,014	172,846
Current portion of long-term debt (note 7)	415,826	487,975
	<u>4,316,599</u>	<u>1,224,440</u>
Long-term debt (note 7)	12,585,844	7,126,238
Deferred contributions (note 8)	<u>324,166</u>	<u>101,791</u>
	<u>17,226,609</u>	<u>8,452,469</u>
Fund balances		
Unrestricted	1,618,499	624,393
Invested in property and equipment (note 13c)	36,665,948	34,723,479
Internally restricted (note 12)	1,405,469	2,275,810
Externally restricted (notes 13a and 13b)	1,356,879	3,106,312
	<u>41,046,795</u>	<u>40,729,994</u>
	<u>58,273,404</u>	<u>49,182,463</u>

Commitments (note 17)

Approved by the Board of Directors

Signed
Wade Paget

Signed
Bryan Romanesky

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

Horizon Housing Society
Statement of Operations and Changes in Fund Balances
For the year ended March 31, 2018

	General Fund \$	Capital Fund \$	New Growth Fund \$	2018 \$	2017 \$
Revenue					
Rental revenue	2,821,290	-	-	2,821,290	2,790,032
Subsidy revenues (note 14)	845,850	-	-	845,850	858,749
Grants, donations and fundraising revenue	116,965	71,079	626,450	814,494	10,949,403
Forgiveness of debt	17,603	8,533	-	26,136	26,136
Other revenue	254,092	-	-	254,092	249,038
Interest	64,500	-	-	64,500	57,411
	4,120,300	79,612	626,450	4,826,362	14,930,769
Interest expense funded by CMHC	35,803	-	-	35,803	35,803
	4,156,103	79,612	626,450	4,862,165	14,966,572
Expenditures					
Amortization	-	1,014,059	-	1,014,059	1,045,426
Bad debts	29,718	-	-	29,718	23,251
Insurance	88,487	-	-	88,487	80,936
Interest on long-term debt	308,586	-	-	308,586	323,185
Office and administration	363,802	-	16,190	379,992	326,877
Property taxes	36,896	-	-	36,896	36,932
Repairs and replacements	732,260	-	-	732,260	616,585
Salaries and employee benefits	1,168,205	-	-	1,168,205	1,197,496
Utilities	528,510	-	-	528,510	474,029
Fundraising expenses	264	-	258,387	258,651	230,105
	3,256,728	1,014,059	274,577	4,545,364	4,354,822
Excess (deficiency) of revenue over expenditures	899,375	(934,447)	351,873	316,801	10,611,750
Fund balances – Beginning of year	3,180,102	34,723,479	2,826,413	40,729,994	30,118,244
Interfund transfer – fixed asset additions	(55,502)	2,489,135	(2,433,633)	-	-
Interfund transfer – repayment of long-term debt	(387,781)	387,781	-	-	-
Interfund transfer – internally restricted transfer	(200,000)	-	200,000	-	-
Interfund transfer – interest income	(17,835)	-	17,835	-	-
Fund balances – End of year	3,418,359	36,665,948	962,488	41,046,795	40,729,994

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

Horizon Housing Society

Statement of Cash Flows

For the year ended March 31, 2018

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year (general fund and new growth fund)	1,251,248	11,373,399
Items not affecting cash		
Amortization of mortgage fees	12,101	12,101
Amortization of deferred contributions (note 8)	(75,829)	(38,638)
Forgiveness of debt	(17,603)	(17,603)
	<u>1,169,917</u>	<u>11,329,259</u>
Changes in non-cash operating items		
Subsidy and miscellaneous receivables	(118,979)	(2,140)
Prepaid expenses	(16,146)	(80,181)
Due from Horizon West	18,303	(817)
Accounts payable and accrued liabilities	(86,138)	68,471
Accrued interest payable	(1,212)	(1,192)
Excess subsidies due to CMHC and AS	(10,571)	(34,831)
Additions to deferred contributions (note 8)	298,204	112,272
Unearned revenue	8,157	80,454
Security deposits payable	9,168	1,279
Capital contributions received in new growth fund	(626,450)	(10,627,707)
	<u>644,253</u>	<u>844,867</u>
Financing activities		
Proceeds from development loans and construction financing	5,801,374	127,461
Repayment of debt	(399,882)	(385,301)
Contributions restricted for capital assets	697,529	10,066,861
	<u>6,099,021</u>	<u>9,809,021</u>
Investing activities		
Purchase of investments	(300,000)	(1,174,931)
Redemption of matured investments	300,000	1,304,320
Purchase of property and equipment ¹	(12,862,670)	(10,217,386)
Changes in accounts payable and accrued liabilities related to the construction of property and equipment	1,990,487	(41,236)
Changes in holdback payable	1,254,417	-
Addition to intangible assets	-	(1,435)
Addition to restricted cash	(118,158)	(89,635)
	<u>(9,735,924)</u>	<u>(10,220,303)</u>
(Decrease) increase in cash during the year	<u>(2,992,650)</u>	<u>433,585</u>
Cash – Beginning of year	<u>6,198,361</u>	<u>5,764,776</u>
Cash – End of year	<u>3,205,711</u>	<u>6,198,361</u>
Supplementary information		
Interest paid	297,697	324,377
Interest received	63,143	57,330

¹An additional \$16,157 (2017– \$33,087) of property and equipment was purchased with restricted cash.

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

Horizon Housing Society

Notes to Financial Statements

March 31, 2018

1 Basis of operations

Horizon Housing Society (the "Society") was incorporated under the Societies Act of Alberta. The Society was granted charitable status in April 1998, which exempts the organization from being subject to income taxes under Section 149 (1)(f) of the Income Tax Act of Canada. The Society acquires land and buildings for the purpose of providing affordable, integrated and supported homes. The Society serves tenants with a variety of vulnerabilities including people experiencing mental health challenges and 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") and Alberta Seniors and Housing ("AS"), which require that properties are 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. This fund is comprised of both internally and externally restricted replacement and operating reserves (notes 12 and 13).
- The Capital Fund contains the assets, liabilities, revenue and expenses related to the Society's property, plant and equipment.
- The New Growth Fund contains the assets, liabilities, revenues and expenses related to new initiatives of the Society. This fund is comprised of both internally and externally restricted building reserves (notes 12 and 13).

Horizon Housing Society

Notes to Financial Statements

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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 as revenue of 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 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 2018 is \$nil (2017 – \$836,090).

e) Property and equipment

Property and equipment that are under the agreement with CMHC and AS 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 and AS.

Capital improvements funded by Residential Rehabilitation Assistance Program 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
Computer equipment	33% straight line

Interest costs related to the financing of the construction of property and equipment are capitalized until the assets are placed in service. Once the assets are in service, interest costs are amortized based on the estimated useful life of the corresponding assets.

f) Intangible asset

Intangible asset consists of costs to purchase and implement a property management software system and is recorded at cost less accumulated amortization. Amortization is recorded over the estimated useful life of ten years on a straight-line basis.

Horizon Housing Society

Notes to Financial Statements

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g) Allocated expenditures

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

h) Cash

Cash consists of cash on hand and bank balances.

i) Financial instruments

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

Investments consist of guaranteed investment certificates. Investments are carried at cost with accrued interest recognized directly in the statement of operations as interest income. Investments with maturity within one year have been classified as short-term investments.

3 Restricted cash

Restricted cash is comprised of the following:

	2018 \$	2017 \$
Externally restricted replacement reserve	880,135	786,552
Tenant security deposits	181,264	172,846
	<u>1,061,399</u>	<u>959,398</u>

4 CMHC assistance and AS assistance

During the year, the Society obtained financial assistance from CMHC and AS, directly relating to certain properties that have operating agreements with these entities. In any year that the Society has revenue in excess of expenses relating to these certain properties, it may be asked to refund the excess on a project by project basis. Management estimates subsidies due to CMHC and AS with reference to formulae prescribed by the relevant funder. Subsidies payable at year end, include \$nil (2017 – \$nil) for Horizon 14 and \$nil (2017 – \$10,572) for Horizon Park. The estimated subsidy repayable is recorded against the subsidy revenue received during the year.

Horizon Housing Society

Notes to Financial Statements

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5 Property and equipment

	2018		
	Cost \$	Accumulated amortization \$	Net \$
Land	14,378,300	-	14,378,300
Building	50,871,837	12,191,235	38,680,602
Furniture and fixtures	186,409	131,944	54,465
Computer equipment	21,864	21,864	-
	<hr/>	<hr/>	<hr/>
	65,458,410	12,345,043	53,113,367

	2017		
	Cost \$	Accumulated amortization \$	Net \$
Land	14,378,300	-	14,378,300
Building	37,993,009	11,183,008	26,810,001
Furniture and fixtures	186,409	129,939	56,470
Computer equipment	21,864	20,443	1,421
	<hr/>	<hr/>	<hr/>
	52,579,582	11,333,390	41,246,192

Included in building are costs of \$14,369,291 (2017 – \$1,433,546) related to the construction of the Society's new developments which are not subject to amortization.

6 Intangible asset

	2018		2017	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Property management software	24,065	4,400	19,665	22,072

Horizon Housing Society

Notes to Financial Statements

March 31, 2018

7 Long-term liabilities

A summary of the Society's outstanding liabilities are as follows:

a) Long-term debt

Property	Interest Rate	Mortgage held with	Monthly Instalment Amount (including interest) \$	Remaining Amortization period	Renewal/Maturity Date	2018 \$	2017 \$
Horizon 14	9.88%	CMHC	14,826	10 years 5 months	September 2028	1,395,712	1,470,374
Albert House	2.51%	CMHC	877	9 years 10 months	March 2018	92,366	100,885
Keith House	1.12%	CMHC	494	11 years 8 months	February 2028	65,278	70,449
Horizon Park	1.67%	CMHC	8,589	-	April 2018	8,603	110,607
Miner House	2.84%	Royal Bank of Canada	1,409	3 years 8 months	July 2020	58,759	73,777
Horizon on 8 th	2.02%	Peoples Trust Company Canadian Mental Health Association	9,819	22 years 9 months	December 2020	2,149,472	2,223,250
Miner House	N/A – *	Association	-	-	-	40,000	40,000
Heritage Gardens	3.37%	TD Bank	19,171	18 years 8 months	December 2021	3,200,246	3,320,977
						<u>7,010,436</u>	<u>7,410,319</u>
Transaction and financing fees						(24,200)	(36,302)
Less: Current portion, net of transactions and financing fees						<u>(315,826)</u>	<u>(487,975)</u>
						<u>6,670,410</u>	<u>6,886,042</u>

Long term debt amount due to Calgary Mental Health Association for Miner House is non – interest bearing with no repayment terms. If the amount was in default, then interest would accrue at 8%.

The following land and buildings have been pledged as collateral for the above loans and have a net book value of \$15,994,190 (2017 – \$16,381,305).

- Horizon 14
- Horizon Park
- Albert House
- Keith House
- Miner House
- Horizon on 8th
- Heritage Gardens

Horizon Housing Society

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

	\$
2019	315,826
2020	376,380
2021	2,262,909
2022	2,930,665
2023	126,407
Future years	998,249
	<u>7,010,436</u>

b) Forgivable loans

In the past, the Society completed repairs to Horizon Park, Horizon 14 and completed capital upgrades to Hamilton House, all of which were financed through Residential Rehabilitation Assistance Program and other forgivable loans as follows:

	<u>2018</u>		<u>2017</u>	
	Original loan \$	Forgiven in current year \$	Unforgiven balance \$	Unforgiven balance \$
Horizon 14	162,000	10,800	8,100	18,900
Horizon 14	238,093	6,803	40,810	47,613
Hamilton House	128,000	8,533	37,690	46,223
	<u>528,093</u>	<u>26,136</u>	<u>86,600</u>	<u>112,736</u>

As long as the Society continues to rent the number of assisted rental units to tenants at or below the established income threshold, the loans will continue to be forgiven to maturity. If the Society increases the rent, sells or transfers the property during the period of the loans, CMHC must be informed immediately and a portion or the total outstanding balance of the loans including the unearned forgivable portion, plus interest, will become due and payable.

c) Construction financing

The Society entered into a loan agreement with CMHC to finance the construction of the Society's new housing development in Glamorgan.

	\$
Amount drawn	5,775,254
Accrued Interest	26,120
	<u>5,801,374</u>

Horizon Housing Society

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Loan draws are based upon costs incurred and costs to complete the project, up to a total loan amount of \$13,561,000. The loan bears an interest rate of 2.06% over a ten year term maturing December 1, 2027. Only interest is due until certain milestones, based on the occupancy and stabilization of the development, are met. After this time, blended principal and interest payments are required based on a 30 year amortization period.

The land and buildings associated with this project have been pledged as collateral for this loan and have a net book value of \$22,476,891.

Subsequent to year-end, on April 3, 2018, the Society received a loan draw of \$2,272,008 from this facility.

d) Development loans

In 2017, the Society received loans of \$127,460 for the development of new housing projects. The loans are non-interest bearing and payable when the proposed housing project proceeds with a commitment for capital financing. Based on the affordability of the proposed project, up to 35% of the loan may be forgiven.

	\$
Current portion	100,000
Long-term portion	<u>27,460</u>
	<u>127,460</u>

8 Deferred contributions

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

	2018	2017
	\$	\$
Beginning balance	101,791	28,157
Contributions received in the year	298,204	112,272
Contributions recognized in the year	<u>(75,829)</u>	<u>(38,638)</u>
Ending balance	<u>324,166</u>	<u>101,791</u>

9 Related party transactions

The Society and HWHS have the same Board of Directors and are under common management. HWHS was incorporated on March 25, 1998 under the Societies Act of Alberta and commenced operations on August 1, 1998. HWHS is a registered not-for-profit organization and is exempt from taxes under Section 149 (1)(l) of the Income Tax Act of Canada. HWHS 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 Housing Society

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March 31, 2018

HWHS has not been consolidated in the Society's financial statements. The following is condensed financial information included in the financial statements of HWHS as at March 31, 2018. These statements were prepared using the same accounting policies as Horizon Housing Society.

	2018 \$	2017 \$
Financial position		
Total assets	1,482,643	1,584,673
Total liabilities	850,102	1,346,253
Total fund balances (net deficiency)	632,541	238,420
	<u>1,482,643</u>	<u>1,584,673</u>
Results of operations		
Revenue	1,812,369	1,543,673
Expenditures	1,418,248	960,740
Excess of revenue over expenditures	<u>394,121</u>	<u>582,933</u>
Cash flows		
Cash flows from operating activities	625,844	708,248
Cash flows from investing activity	(391,175)	(148,399)
Cash flows utilized in financing activities	(230,990)	(517,540)
Increase in cash during the year	<u>3,679</u>	<u>42,309</u>

During the year ended March 31, 2018, HWHS was allocated \$334,105 (2017 – \$337,552) by the Society for office and administration and salaries and benefits expenses. These charges were incurred in the normal course of operations, and have been recognized as reduction to the Society's expenses as follows:

	2018 \$	2017 \$
Salaries and benefits expense	221,374	249,498
Office and administration expense	112,731	88,054

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

10 Goods and services tax

The Society is designated a municipality pursuant to subsection 259(1) of the Excise Tax Act in respect of its housing units in a housing project that are supplied to tenants on a rent-geared-to-income basis. As such, the Society is eligible for a 100% rebate of the GST for property and services that related to its municipal activities in respect of which tax became payable on or after February 1, 2004.

Horizon Housing Society

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Goods and services tax (GST) is accounted for as follows:

a) Charitable portion

- One half of the GST paid (non-refundable portion) is recorded in the individual expense accounts where the original expenditure is recorded; and
- One half of the GST paid (refundable portion) is recorded in the GST recoverable amount and is included in subsidy and miscellaneous receivables for financial statement purposes.

b) Municipality portion

- All of the GST paid for the municipal portion may be claimed as an input tax credit.

11 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 at the renewal of its fixed rate borrowings. At March 31, 2018, the Society had fixed interest rates on its long-term obligations at effective rates of 1.12% – 9.88% (2017 – 1.12% to 9.88%). The Society also has non-interest bearing mortgage with interest calculated at 8% in the event of default.

Credit risk

Credit risk is the risk that one party to a financial instrument 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. The Society has a \$300,000 line of credit available at monthly interest rate of prime plus 1% for general operating requirements. At year end the Society has utilized \$nil (2017 – \$nil).

12 Internally restricted fund balances

a) Replacement Reserve

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:

Horizon Housing Society

Notes to Financial Statements

March 31, 2018

	2018 \$	2017 \$
Balance – Beginning of the year	643,185	672,948
Internally restricted by the Board of Directors during the year	215,264	206,915
Capital expenditures and repairs and maintenance	<u>(210,728)</u>	<u>(236,678)</u>
Balance – End of year	<u>647,721</u>	<u>643,185</u>

b) Building Reserve

Internally Restricted Building Reserve – A building reserve has been established by the Board of Directors and is determined on the basis of revenues generated from non-funded activities. The reserve will be used to fund the building of new residential projects as determined by the Board of Directors.

	2018 \$	2017 \$
Balance – Beginning of year	1,330,359	1,019,906
Internally restricted by the Board of Directors during the year	225,058	427,558
Utilized	<u>(1,103,566)</u>	<u>(117,105)</u>
Balance – End of year	<u>451,851</u>	<u>1,330,359</u>

c) Operating Reserve

Internally Restricted Operating Reserve – An operating reserve has been established by the Board of Directors to provide a cushion against future unexpected cash flow shortages, expenses or losses.

	2018 \$	2017 \$
Balance – Beginning of year	302,266	249,078
Additions – Internally restricted by the Board of Directors	<u>3,631</u>	<u>53,188</u>
Balance – End of year	<u>305,897</u>	<u>302,266</u>
Total internally restricted fund balances	<u>1,405,469</u>	<u>2,275,810</u>

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Notes to Financial Statements

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13 Externally restricted fund balances

a) Replacement Reserve

Externally Restricted Replacement Reserve – Under agreements with CMHC and AS for certain specific properties, 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 or AS. The funds in the accounts may only be used as approved by CMHC or by AS. Withdrawals are applied to interest first and then principal.

	2018 \$	2017 \$
Balance – Beginning of the year	782,873	701,636
Additions during the year		
Horizon 14 – CMHC	112,000	101,000
Albert House – AS	6,500	6,500
Keith House – AS	2,000	2,000
Horizon Park – AS	30,000	30,000
Interest	9,617	5,796
Capital expenditures and repairs and maintenance	(96,748)	(64,059)
Balance – End of year	<u>846,242</u>	<u>782,873</u>

b) Building Reserve

Externally Restricted Building Reserve – Represents amounts restricted by contributors to be used for particular building projects as follows:

	2018 \$	2017 \$
Balance – Beginning of year	2,323,439	2,002,422
Additions	626,450	10,627,081
Utilized	(2,439,252)	(10,306,064)
Balance – End of year	<u>510,637</u>	<u>2,323,439</u>

Horizon Housing Society

Notes to Financial Statements

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c) Invested in Property and Equipment

Invested in Property and Equipment – Includes the following amounts restricted by contributors to be used for specific capital upgrades.

	2018 \$	2017 \$
Balance – Beginning of year	-	107,631
Additions	71,079	275,244
Utilized	(37,058)	(382,875)
Balance – End of year	<u>34,021</u>	<u>-</u>
Total externally restricted fund balances	<u>1,390,900</u>	<u>3,106,312</u>

14 Subsidy schedule

	2018 \$	2017 \$
Subsidy revenue		
Private landlord rent supplement (PLRS)	500,137	507,437
Alberta Seniors and Housing	185,848	194,448
CMHC – Section 95 Assistance	82,047	82,047
CMHC – Rent supplement	76,978	73,977
Other rent subsidies	840	840
	<u>845,850</u>	<u>858,749</u>

15 Statutory disclosures

As required under Section 7(2) of the Charitable Fundraising Act of Alberta, the Society discloses the following:

	\$
Remuneration to employees whose principle duties involve fundraising	39,188

16 Government remittances

Government remittances consist of 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, 2018, \$nil (2017 – \$ nil) is included within accounts payable and accrued liabilities.

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Notes to Financial Statements

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17 Commitments

Renovation and Retrofit initiative

In 2010, the Society received government funding from CMHC for Renovation and Retrofit of \$186,032. The Society was required to register a collateral mortgage in favour of CMHC for the value of \$177,109.

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.

Land leases

a) Bob Ward Residence

The land on which the Bob Ward Residence is located, is owned by the City of Calgary, who have provided it to the Society under a lease. The terms of the lease are that 20% of any annual surplus from the building is to be paid to the City of Calgary for the period between 2022 and 2027. The payment is due upon exercising the first renewal option in 2027.

b) Alice Bissett Place

The land on which the Alice Bissett Place building is located is owned by the City of Calgary, who have provided it to the Society under a lease. The term is 25 years from the commencement date of July 1, 2007. The renewal term is 5 years with 7 options to renew. A rental payment of \$10 per annum is payable on the commencement date and thereafter on each anniversary of the commencement date.

As a condition of the land lease, the building must only be used and occupied for affordable housing and not for any other purpose.

In addition, the Society must not substantially change the use of the building or mix of occupants of the building for a period of at least ten years from the date of the occupancy permit for the site.

Horizon Housing Society

Notes to Financial Statements

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Administrative leases

The Society is required to make the following payments under certain office space and equipment lease agreements.

	\$
2019	95,383
2020	95,497
2021	129,169
2022	<u>21,506</u>
	<u>341,555</u>

Development agreement

In April 2017, the Society entered into an agreement to engage a general contractor for construction of the Society's new development in Glamorgan. Expected completion of the development is Fall 2018.

18 Comparatives

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