

Financial Statements of

**SAULT STE. MARIE  
HOUSING CORPORATION**

Year ended December 31, 2010



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## **INDEPENDENT AUDITORS' REPORT**

To the Directors of Sault Ste. Marie Housing Corporation, the District of Sault Ste Marie Services Administration Board and the Canada Mortgage and Housing Corporation

We have audited the accompanying financial statements of Sault Ste. Marie Housing Corporation, which comprise the statement of financial position as at December 31, 2010, the statements of operations and surplus and cash flows for the year then ended, and notes, comprising of a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section 113(2) of the Social Housing Reform Act.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 113(2) of the Social Housing Reform Act , 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. 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 audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sault Ste. Marie Housing Corporation as at December 31, 2010, and its financial performance and its results of operations and its cash flows for the financial reporting provisions of Section 113(2) of the Social Housing Reform Act.

*Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Sault Ste. Marie Housing Corporation to meet the requirements of the District of Sault Ste. Marie Services Administration Board and the Canada Mortgage and Housing Corporation. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Sault Ste. Marie Housing Corporation and the District of Sault Ste. Marie Services Administration Board and the Canada Mortgage and Housing Corporation and should not be used by parties other than Sault Ste. Marie Housing Corporation or the District of Sault Ste. Marie Services Administration Board and the Canada Mortgage and Housing Corporation.

*KPMG LLP*

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Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

April 28, 2011

# SAULT STE. MARIE HOUSING CORPORATION

## Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ 2,007,822	\$ 1,903,988
Trade receivables	225,946	292,089
	<u>2,233,768</u>	<u>2,196,077</u>
Capital assets (note 3)	4,987,223	5,336,807
	<u>\$ 7,220,991</u>	<u>\$ 7,532,884</u>

## Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 302,014	\$ 553,997
Current portion of long-term debt (note 4)	373,789	349,584
	<u>675,803</u>	<u>903,581</u>
Long-term debt (note 4)	4,570,418	4,944,207
Shareholder's equity:		
Share capital (note 5)	1	1
Replacement reserve (note 6)	1,155,000	1,155,000
Surplus	776,753	487,079
Contributed surplus	43,016	43,016
	<u>1,974,770</u>	<u>1,685,096</u>
	<u>\$ 7,220,991</u>	<u>\$ 7,532,884</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# SAULT STE. MARIE HOUSING CORPORATION

## Statement of Operations and Surplus

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Rental	\$ 3,159,023	\$ 3,192,343
District of Sault Ste. Marie Social Services Administration Board	4,600,012	4,460,842
Interest	13,427	12,155
Miscellaneous	50,486	40,799
	<u>7,822,948</u>	<u>7,706,139</u>
Expenses:		
Rent supplement	2,370,612	2,264,733
Building capital	1,199,737	1,525,810
Utilities	1,128,828	1,284,356
Building repairs and maintenance	903,203	812,633
Municipal property taxes	751,224	738,898
Mortgage interest	369,283	391,899
Amortization of capital assets	349,584	326,969
Program operations	139,560	146,500
Bad debts	98,736	99,118
Grounds maintenance	93,393	95,648
Insurance	98,271	111,926
Administration	20,398	21,856
Professional fees	8,750	9,000
Interest and bank charges	1,695	2,584
	<u>7,533,274</u>	<u>7,831,930</u>
Excess (deficiency) of revenue over expenses	289,674	(125,791)
Allocation from replacement reserve	-	(345,000)
Surplus for the year	289,674	219,209
Surplus, beginning of year	487,079	267,870
Surplus, end of year	<u>\$ 776,753</u>	<u>\$ 487,079</u>

See accompanying notes to financial statements.

# SAULT STE. MARIE HOUSING CORPORATION

## Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ 289,674	\$ (125,791)
Item not involving cash:		
Amortization of capital assets	349,584	326,969
Changes in non-cash operating working capital:		
Decrease (increase) in trade receivables	66,143	(176,217)
Increase (decrease) in accounts payable and accrued liabilities	(251,983)	115,040
	453,418	140,001
Cash flows from financing activities:		
Reduction in long-term debt	(349,584)	(326,969)
Increase (decrease) in cash	103,834	(186,968)
Cash, beginning of year	1,903,988	2,090,956
Cash, end of year	\$ 2,007,822	\$ 1,903,988

See accompanying notes to financial statements.

# SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2010

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Sault Ste. Marie Housing Corporation (the "Corporation") was incorporated in the Province of Ontario on December 14, 2000. The objects of the corporation state that the Corporation will provide for accommodation to persons of low or modest income and to persons with special needs. The organization is exempt from income tax under section 149(1)(d.5) of the Income Tax Act as a municipal corporation.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with administrative requirements of the Social Housing Reform Act. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because:

(a) Amortization on building, furniture and equipment purchased from loans recognized by CMHC is not provided over the estimated useful lives of these assets but rather at a rate equal to the annual principal reduction of the mortgage,

### (b) Capital assets:

(i) purchased from accumulated surplus are charged to operations in the year the expenditure is incurred

(ii) purchased from the replacement reserve are charged against the replacement reserve account, rather than being capitalized on the statement of financial position and amortized over their estimated useful lives,

### (b) Accrual basis of accounting:

Revenue and expenditures are recorded on the accrual basis, whereby they are reflected in the accounts in the period in which they have been earned and incurred respectively, whether or not such transactions have been finally settled by the receipt or payment of fund.

### (c) Capital assets:

Buildings and properties are recorded at a value equivalent to the debt transferred by the Province of Ontario and are being amortized at an amount equal to principal repayments of the mortgages. Capital asset additions subsequent to the transfer from the Province are being charged to expense when incurred unless financed by new debt.

# SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### (d) Revenue recognition:

Revenue is recorded as earned monthly from tenants and from an agreement in place with the District of Sault Ste. Marie Social Services Administration Board.

### (e) Use of estimates:

The preparation of the 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 and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of capital assets and valuation allowances for receivables. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

### (f) Financial instruments:

The financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the statement of financial position at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in operations; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in the statement of changes in net assets.

# SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

The Corporation designated its cash as held-for-trading, which are measured at fair value. Trade receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

The Corporation has selected to account for transactions at the trade date.

## 2. Incorporation and transfer agreement:

On December 14, 2000 the Sault Ste. Marie Housing Corporation was established under the provisions of the Ontario Business Corporations Act. Upon incorporation, 100 shares were issued to the District of Sault Ste. Marie Social Services Administration Board for nominal consideration.

The transfer of land and buildings was recorded in the Corporation's accounts at a value equivalent to the debt transferred by the Province of Ontario. The transfer of equipment and furniture was recorded in the Corporation's accounts at book value as determined by the Province of Ontario. The transfer represents substantially all of the social housing assets, liabilities, rights and obligations of the OHC located within the City of Sault Ste. Marie.

Summary details are described below:

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Land and buildings	\$ 7,874,037
Equipment and fixtures	43,016
Mortgages	(7,874,037)
Contributed surplus	\$ 43,016

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# SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

### 3. Capital assets:

	2010		2009	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land and buildings	\$ 7,874,037	\$ 2,929,830	\$ 7,874,037	\$ 2,580,246
Equipment and fixtures	43,016	-	43,016	-
	7,917,053	2,929,830	7,917,053	2,580,246
Net book value	\$	\$ 4,987,223	\$	\$ 5,336,807

### 4. Long-term debt:

	2010	2009
Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 4.00% to 8.10%, annual payments totaling \$718,867, due dates ranging from January 2010 to January 2023	\$ 4,944,207	\$ 5,293,791
Current portion of long-term debt	373,789	349,584
	\$ 4,570,418	\$ 4,944,207

Principal repayments required for the next five years and thereafter are due as follows:

Year	Amount
2011	\$ 373,789
2012	399,696
2013	427,428
2014	457,114
2015	488,896
Thereafter	2,797,284
	\$ 4,944,207

# SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

## 5. Share capital:

	2010	2009
Authorized: Unlimited common shares		
Issued: 100 Common shares	\$ 1	\$ 1

## 6. Replacement reserve:

	2010	2009
Balance, beginning of year	\$ 1,155,000	\$ 1,500,000
Allocation from operating funds	-	(345,000)
Balance, end of year	\$ 1,155,000	\$ 1,155,000

The Board of Directors of the Corporation have approved the establishment of a capital replacement reserve in order to meet the budgeting needs for future capital expenditures.

## 7. Financial instruments:

The carrying value of cash, trade receivable, and accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of the instruments or they are receivable or payable on demand.

The fair value of the long-term debt is not determinable given the nature of the negotiation of the terms of these financial instruments.

## 8. Economic dependence:

The Corporation has funding arrangements and contractual agreements with the District of Sault Ste. Marie Social Services Administration Board, the Corporation of the City of Sault Ste. Marie and the Canada Mortgage and Housing Corporation to provide services in accordance with contribution arrangements. Administration costs are not reflected in these financial statements, as the District of Sault Ste. Marie Social Services Administration Board incurs these costs on behalf of the Corporation.