

Financial Statements

**SAULT STE. MARIE
HOUSING CORPORATION**

Year ended December 31, 2007



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AUDITORS' REPORT TO THE DIRECTORS

We have audited the statement of financial position of Sault Ste. Marie Housing Corporation as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements have been prepared to comply with Section 113(2) of the Social Housing Reform Act. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles disclosed in note 1.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Directors of the Corporation, the District of Sault Ste. Marie Services Administration Board and CMHC to comply with Section 113(2) of the Social Housing Reform Act. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
March 5, 2008

SAULT STE. MARIE HOUSING CORPORATION

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash	\$ 1,481,278	\$ 1,379,143
Trade receivables	162,197	149,713
	<u>1,643,475</u>	<u>1,528,856</u>
Capital assets (note 3)	5,980,619	6,309,644
	<u>\$ 7,624,094</u>	<u>\$ 7,838,500</u>

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 406,438	\$ 354,583
Current portion of long-term debt (note 4)	316,843	329,025
	<u>723,281</u>	<u>683,608</u>
Long-term debt (note 4)	5,620,760	5,937,603
Shareholder's equity:		
Share capital (note 5)	1	1
Replacement reserve (note 6)	1,200,000	1,100,000
Surplus	37,036	74,272
Contributed surplus	43,016	43,016
	<u>1,280,053</u>	<u>1,217,289</u>
	<u>\$ 7,624,094</u>	<u>\$ 7,838,500</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, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Rental	\$ 3,121,346	\$ 3,011,824
District of Sault Ste. Marie Social Services Administration Board	3,794,964	3,783,859
Interest	73,615	49,648
Miscellaneous	55,686	30,061
	7,045,611	6,875,392
Expenses:		
Rent supplement	2,140,282	2,083,487
Professional fees	8,500	6,067
Amortization of capital assets	329,025	308,878
Administration	26,896	27,325
Mortgage interest	434,313	454,461
Utilities	1,128,227	1,048,364
Building repairs and maintenance	774,789	740,224
Grounds maintenance	119,512	114,141
Bad debts	102,295	104,183
Building capital	1,144,619	845,710
Interest and bank charges	1,388	1,279
Program operations	56,501	79,855
Municipal property taxes	716,500	698,801
	6,982,847	6,512,775
Excess of revenue over expenses	62,764	363,717
Allocation to replacement reserve	100,000	300,000
Deficit for the year	(37,236)	(63,717)
Surplus, beginning of year	74,272	10,555
Surplus, end of year	\$ 37,036	\$ 74,272

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash flows from operating accounts:		
Excess of revenue over expenses	\$ 62,764	\$ 363,717
Item not involving cash:		
Amortization of capital assets	329,025	308,878
Changes in non-cash operating working capital:		
Decrease (increase) in trade receivables	(12,484)	36,526
Increase (decrease) in accounts payable and accrued liabilities	51,855	(233,971)
	431,160	475,150
Cash flows from financing activities:		
Reduction in long-term debt	(329,025)	(308,878)
Increase in cash	102,135	166,272
Cash, beginning of year	1,379,143	1,212,871
Cash, end of year	\$ 1,481,278	\$ 1,379,143

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

Sault Ste. Marie Housing Corporation (the "Corporation") was incorporated in the Province of Ontario on December 12, 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 Corporation 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 and 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, and
- (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;

- (c) Financial assets and liabilities are recorded at cost.

(c) 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.

(d) 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

Year ended December 31, 2007

1. Significant accounting policies (continued):

(e) 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.

(f) Use of estimates:

The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

(g) Financial instruments:

The Corporation's financial instruments consist of cash, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

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:

	2007
Land and buildings	\$ 7,874,037
Equipment and fixtures	43,016
Mortgages	(7,874,037)
Contributed surplus	\$ 43,016

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

3. Capital assets:

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land and buildings	\$ 7,874,037	\$ 1,936,434	\$ 7,874,037	\$ 1,607,409
Equipment and fixtures	43,016	—	43,916	—
	7,917,053	1,936,434	7,917,053	1,607,409
Net book value		\$ 5,980,619		\$ 6,309,644

4. Long-term debt:

	2007	2006
Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 4.00% to 8.10%, annual payments totaling \$763,339, due dates ranging from January 2008 to January 2023	\$ 5,937,603	\$ 6,266,628
Current portion of long-term debt	(316,843)	(329,025)
	\$ 5,620,760	\$ 5,937,603

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

Year	Amount
2008	\$316,843
2009	326,969
2010	349,584
2011	373,789
2012	399,696
Thereafter	4,570,419
	\$ 5,937,603

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2007

5. Share capital:

	2007	2006
Authorized:		
Unlimited common shares		
Issued:		
100 common shares	\$ 1	\$ 1

6. Replacement reserve:

	2007	2006
Balance, beginning of year	\$ 1,100,000	\$ 800,000
Allocation from operating funds	100,000	300,000
	\$ 1,200,000	\$ 1,100,000

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. The allocation to the replacement reserve will be \$100,000 unless determined otherwise by the Board.

7. 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.