DRAFT Financial Statements of

SAULT STE. MARIE HOUSING CORPORATION

Year ended December 31, 2012

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, 2012, 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 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, 2012, 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

Comparative information

Without modifying our opinion, we draw attention to the notes to the financial statements which describes that Sault Ste. Marie Housing Corporation adopted Canadian accounting standards for not-for-profit organization for its interpretation of Canadian GAAP in Section 113(2) of the Social Housing Reform Act on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2011 and January 1, 2011 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

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Chartered Accountants, Licensed Public Accountants

Month DD, YYYY

Sault Ste. Marie, Canada

SAULT STE. MARIE HOUSING CORPORATION

Statements of Financial Position

December 31, 2012, with comparative December 31, 2011 and January 1, 2011

		December 31, 2012	December 31, 2011 (Unaudited)	January 1, 2011 (Unaudited)
Assets				
Current assets:				
Cash	$	2,063,217	2,108,468	2,007,822
Trade receivables		258,898	262,920	225,946
		2,322,115	2,371,388	2,233,768
Capital assets (note 3)		4,213,738	4,613,434	4,987,223
	$	6,535,853	6,984,822	7,220,991
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	349,356	384,749	302,014
Current portion of long-term debt (note 4)		427,428	399,696	373,789
		776,784	784,445	675,803
Long-term debt (note 4)		3,743,294	4,170,722	4,570,418
Shareholder's equity:				
Share capital (note 5)		1	1	1
Replacement reserve (note 6)		1,198,714	1,246,889	1,155,000
Surplus		774,044	739,749	776,753
Contributed surplus (note 2)		43,016	43,016	43,016
		2,015,775	2,029,655	1,974,770
Commitments (note 5)				
	$	6,535,853	6,984,822	7,220,991

See accompanying notes to financial statements.

On behalf of the Board:

__________________________________ Director

__________________________________ Director

SAULT STE. MARIE HOUSING CORPORATION

Statement of Operations and Surplus

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Year ended December 31, 2012, with comparative figures for 2011

	2012	2011 (Unaudited)
Revenue:		
Rental	$ 3,107,178	$ 3,131,349
District of Sault Ste. Marie Social Services Administration Board	5,285,368	4,804,867
Interest	24,980	26,606
Miscellaneous	210,122	50,071
	8,627,648	8,012,893
Expenses:		
Rent supplement	2,553,220	2,523,835
Building capital	1,502,093	1,207,195
Building repairs and maintenance	1,363,185	991,839
Utilities	1,171,336	1,261,025
Municipal property taxes	782,182	776,437
Amortization of capital assets	399,696	373,789
Mortgage interest	319,171	345,079
Grounds maintenance	144,411	120,797
Program operations	141,725	132,037
Insurance	137,761	116,842
Bad debts	115,580	76,205
Professional fees	9,250	15,303
Interest and bank charges	1,836	1,771
Administration	82	15,854
	8,641,528	7,958,008
Excess (deficiency) of revenue over expenses	(13,880)	54,885
Allocation to (from) replacement reserve	(48,175)	91,889
Surplus, beginning of year	739,749	776,753
Surplus, end of year	$ 774,044	$ 739,749

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Statement of Cash Flows

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Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
		(Unaudited)
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	$ (13,880)	$ 54,885
Item not involving cash:		
Amortization of capital assets	399,696	373,789
Changes in non-cash operating working capital:		
Decrease (increase) in trade receivables	4,022	(36,974)
Increase (decrease) in accounts payable and accrued liabilities	(35,393)	82,735
	354,445	474,435
Cash flows from financing activities:		
Reduction in long-term debt	(399,696)	(373,789)
Increase (decrease) in cash	(45,251)	100,646
Cash, beginning of year	2,108,468	2,007,822
Cash, end of year	$ 2,063,217	$ 2,108,468

See accompanying notes to financial statements.

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.

These financial statements have been prepared in accordance with the financial reporting provisions of Section 113(2) of the Social Housing Reform Act. Section 113(2) of the Social Housing Reform Act indicates that the financial reporting frame work is Canadian GAAP except that:

(i) amortization is not provided on building, furniture and equipment over the estimated useful lives of these assets but rather at a rate equal to the annual principal reduction of the mortgage;

(ii) property and equipment 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; and

(iii) a reserve for future capital replacement is appropriated annually from operations.

Canadian GAAP has been interpreted to mean Canadian Accounting Standard for Not-for-Profit Organizations, Part III of the CICA Handbook - Accounting. These are the first financial statements prepared in accordance with this financial reporting framework. Previously Canadian GAAP has been interpreted to mean Part V of the CICA Handbook - Accounting.

In accordance with the transitional provisions in not-for-profit standards, the Corporation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying not-for-profit standards.

There are no adjustments to fund balances as at January 1, 2011 or excess (deficiency) of revenue over expenses for the year ended December 31, 2011 as a result of the transition to not-for-profit standards.

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,

1. Significant accounting policies (continued):

(a) Basis of presentation (continued):

(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.

(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 accounting standards for not-for-profit organizations 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.

1. Significant accounting policies (continued):

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator or impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial assets is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

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:

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

3. Capital assets:

December 31, 2012		Cost	Accumulated amortization	Net book value
Land and buildings	$	7,874,037	3,703,315	4,170,722
Equipment and fixtures		43,016	-	43,016
	$	7,917,053	3,703,315	4,213,738

December 31, 2011 (Unaudited)		Cost	Accumulated amortization	Net book value
Land and buildings	$	7,874,037	3,306,619	4,567,418
Equipment and fixtures		43,016	-	43,016
	$	7,917,053	3,306,619	4,610,434

January 1, 2011 (Unaudited)		Cost	Accumulated amortization	Net book value
Land and buildings	$	7,874,037	2,929,830	4,944,207
Equipment and fixtures		43,016	-	43,016
	$	7,917,053	2,929,830	4,987,223

4. Long-term debt:

	December 31, 2012	December 31, 2011 (Unaudited)	January 1, 2011 (Unaudited)
Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 6.09% to 8.10%, annual payments totaling $718,867, due dates ranging from January 2015 to January 2024	$ 4,170,722	$ 4,570,418	$ 4,944,207
Current portion of long-term debt	427,428	399,696	373,789
	$ 3,743,294	$ 4,170,722	$ 4,570,418

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

Year	Amount
2013	$ 427,428
2014	457,114
2015	488,896
2016	450,572
2017	456,045
Thereafter	1,890,667
	$ 4,170,722

5. Share capital:

	December 31, 2012	December 31, 2011 (Unaudited)	January 1, 2011 (Unaudited)
Authorized:			
Unlimited common shares			
Issued:			
100 Common shares	$ 1	$ 1	$ 1

6. Replacement reserve:

	2012	2011 (Unaudited)
Balance, beginning of year	$ 1,246,889	$ 1,155,000
Allocation from operating funds	43,714	91,889
Allocated to capital purchases	(91,889)	-
Balance, end of year	$ 1,198,714	$ 1,246,889

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 risks and concentration of credit risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements. The Corporation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2011.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Corporation is exposed to credit risk with respect to the accounts receivable. The Corporation assesses, on a continuous basis, accounts receivable and provides for any amounts that are collectible in the allowance for doubtful accounts.

(b) Interest rate risk:

The Corporation is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate long-term debt is included in note 4.

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.