

Financial Statements of

# **BANFF HOUSING CORPORATION**

Years ended December 31, 2012 and 2011

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors

We have audited the accompanying financial statements of the Banff Housing Corporation, which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the statements of operations, changes in net assets, and cash flows for the years ended December 31, 2012 and December 31, 2011, and notes, comprising 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 public sector accounting standards, 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.

## **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our 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, we consider 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 in our audits 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 the Banff Housing Corporation as at December 31, 2012, December 31, 2011 and January 1, 2011, and its results of operations, and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 12, 2013  
Calgary, Canada

# BANFF HOUSING CORPORATION

## Statements of Financial Position

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

|  | December 31,<br>2012 | December 31,<br>2011 | January 1,<br>2011  |
|--|----------------------|----------------------|---------------------|
| <b>Assets</b>                                  |                      |                      |                     |
| Current assets:                                |                      |                      |                     |
| Cash (note 2)                                  | \$ 757,422           | \$ 733,472           | \$ –                |
| Accounts receivable                            | 14,715               | 13,434               | 8,319               |
| Inventory                                      | –                    | –                    | 1,143,468           |
| Prepaid expenses                               | 1,370                | 1,328                | 1,307               |
|  | <u>773,507</u>       | <u>748,234</u>       | <u>1,153,094</u>    |
| Tangible capital assets (note 3)               | 184,742              | 192,427              | 200,751             |
| Second mortgages receivable (note 4)           | 1,083,000            | 1,145,000            | 1,238,000           |
|  | <u>\$ 2,041,249</u>  | <u>\$ 2,085,661</u>  | <u>\$ 2,591,845</u> |
| <b>Liabilities and Net Assets</b>              |                      |                      |                     |
| Current liabilities:                           |                      |                      |                     |
| Accounts payable and accrued liabilities       | \$ 23,863            | \$ 5,498             | \$ 20,904           |
| Due to Town Banff (note 7)                     | 14,900               | 30,334               | 33,366              |
| Deposits                                       | 1,752                | 1,752                | 3,606               |
| Bank indebtedness (note 2)                     | –                    | –                    | 420,097             |
|  | <u>40,515</u>        | <u>37,584</u>        | <u>477,973</u>      |
| Deferred revenue (note 4)                      | 1,083,000            | 1,145,000            | 1,238,000           |
|  | <u>1,123,515</u>     | <u>1,182,584</u>     | <u>1,715,973</u>    |
| Net assets:                                    |                      |                      |                     |
| Internally restricted net assets (note 5)      | 573,051              | 534,865              | 527,548             |
| Net assets invested in tangible capital assets | 184,742              | 192,427              | 200,751             |
| Unrestricted net assets                        | 159,941              | 175,785              | 147,573             |
|  | <u>917,734</u>       | <u>903,077</u>       | <u>875,872</u>      |
|  | <u>\$ 2,041,249</u>  | <u>\$ 2,085,661</u>  | <u>\$ 2,591,845</u> |

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# BANFF HOUSING CORPORATION

## Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

| December 31, 2012                                      | Invested in<br>tangible<br>capital assets | Internally<br>restricted<br>net assets | Unrestricted<br>net<br>assets | 2012       |
|--|---|--|-------------------------------|------------|
| Balance, beginning of year                             | \$ 192,427                                | \$ 534,865                             | \$ 175,785                    | \$ 903,077 |
| Acquisition of capital assets                          | 275                                       | –                                      | (275)                         | –          |
| Excess (deficiency) of revenues over expenses (note 5) | (7,960)                                   | 38,186                                 | (15,569)                      | 14,657     |
|  | \$ 184,742                                | \$ 573,051                             | \$ 159,941                    | \$ 917,734 |

| December 31, 2011                                      | Invested in<br>tangible<br>capital assets | Internally<br>restricted<br>net assets | Unrestricted<br>net<br>assets | 2011       |
|--|---|--|-------------------------------|------------|
| Balance, beginning of year                             | \$ 200,751                                | \$ 527,548                             | \$ 147,573                    | \$ 875,872 |
| Transfers (note 5)                                     | –   | (50,000)                               | 50,000                        | –          |
| Excess (deficiency) of revenues over expenses (note 5) | (8,324)                                   | 57,317                                 | (21,788)                      | 27,205     |
|  | \$ 192,427                                | \$ 534,865                             | \$ 175,785                    | \$ 903,077 |

See accompanying notes to financial statements.

# BANFF HOUSING CORPORATION

## Statements of Operations

Years ended December 31, 2012 and 2011

|   | 2012      | 2011         |
|---|-----------|--------------|
| <b>Value priced housing operations:</b>                               |           |              |
| Property sales:   |           |              |
| Property sales  | \$ –      | \$ 1,142,404 |
| Cost of sales   | –         | (1,147,462)  |
| Condo fees  | –         | (2,672)      |
|   | –         | (7,730)      |
| Other property expenses:  |           |              |
| Interest expense  | –         | 4,171        |
|   | –         | 4,171        |
| Excess of expenses over revenues from value priced housing operations | –         | (11,901)     |
| <b>General operations:</b>  |           |              |
| Revenue:  |           |              |
| Fees  | 76,005    | 67,707       |
| Second mortgages (notes 4 and 5)                                      | 62,000    | 93,000       |
| Housing study reimbursement (note 7)                                  | 24,483    | –            |
| Interest (notes 5, 7)   | 8,502     | 6,037        |
|   | 170,990   | 166,744      |
| Expenses:   |           |              |
| Wages, management fees and benefits                                   | 123,384   | 122,647      |
| Housing study   | 24,483    | –            |
| Professional fees and services  | 7,964     | 6,266        |
| Amortization  | 7,960     | 8,324        |
| Insurance   | 2,794     | 2,925        |
| Appraisals  | 2,762     | 2,325        |
| Office supplies, postage and printing                                 | 1,946     | 1,271        |
| Telephone   | 263       | 262          |
| Board initiatives   | –         | 106          |
|   | 171,556   | 144,126      |
| Excess (deficiency) of revenues over expenses from general operations | (566)     | 22,618       |
| <b>Property rentals:</b>  |           |              |
| Rental revenue  | 22,800    | 22,300       |
| Operating expenses  | (7,577)   | (5,812)      |
| Excess of revenues over expenses from property rentals                | 15,223    | 16,488       |
| Excess of revenues over expenses                                      | \$ 14,657 | \$ 27,205    |

See accompanying notes to financial statements.

# BANFF HOUSING CORPORATION

## Statements of Cash Flows

Years ended December 31, 2012 and 2011

|   | 2012       | 2011       |
|---|------------|------------|
| Cash provided by (used in):                                     |            |            |
| Operating activities:   |            |            |
| Excess of revenues over expenses                                | \$ 14,657  | \$ 27,205  |
| Items not affecting cash:                                       |            |            |
| Amortization  | 7,960      | 8,324      |
| Changes in non-cash working capital:                            |            |            |
| Increase in accounts receivable                                 | (1,281)    | (5,115)    |
| Decrease in inventory   | –          | 1,143,468  |
| Increase in prepaid expenses                                    | (42)       | (21)       |
| Decrease in amounts due to Town of Banff                        | (15,434)   | (3,032)    |
| Increase (decrease) in accounts payable and accrued liabilities | 18,365     | (15,406)   |
| Decrease in deposits  | –          | (1,854)    |
|   | 24,225     | 1,153,569  |
| Capital activities:   |            |            |
| Purchase of tangible capital assets                             | (275)      | –          |
| Investing activities:   |            |            |
| Net change in second mortgages receivable                       | 62,000     | 93,000     |
| Net change in deferred revenue                                  | (62,000)   | (93,000)   |
|   | –          | –          |
| Net increase in cash  | 23,950     | 1,153,569  |
| Cash (bank indebtedness), beginning of year                     | 733,472    | (420,097)  |
| Cash, end of year   | \$ 757,422 | \$ 733,472 |

See accompanying notes to financial statements.

# BANFF HOUSING CORPORATION

Notes to the Financial Statements

Years ended December 31, 2012 and 2011

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The Banff Housing Corporation (the "Corporation") was incorporated as a non-profit organization to provide value priced housing to residents of the Town of Banff, and as such is not subject to income taxes.

On January 1, 2012, the Corporation adopted Canadian Public Sector Accounting Standards. The Corporation has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in Public Sector Accounting 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 public sector accounting standards.

There are no transitional differences between the financial statements presented previously under Canadian generally accepted accounting principles to those presented under public sector accounting standards. As such, no further explanations or reconciliations are required.

## 1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations.

### (a) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted interest income is recognized as revenue when earned.

Property sales are recognized based on the completed contract method when ownership of each unit is transferred from the Corporation to each homeowner.

### (b) Inventory:

Inventory consists of construction-in-progress, unallocated infrastructure costs, property held for resale, and land held for use in the Corporation's housing projects and is recorded at the lower of cost and net realizable value.

# BANFF HOUSING CORPORATION

Notes to the Financial Statements, page 2

Years ended December 31, 2012 and 2011

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## 1. Significant accounting policies (continued):

### (c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported 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. Management has not elected to carry any 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 straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

Unless otherwise noted, it is the Board's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

### (d) Use of estimates:

The preparation of the 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 amount of revenues and expenses during the reporting period. Significant estimates include useful lives of tangible capital assets. Actual results could differ from the estimates made by the Corporation as additional information becomes available in the future.

### (e) Tangible capital assets:

Purchased tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. When a tangible capital asset no longer contributes to the Corporation's ability to provide services, its carrying amount is written down to its residual value.

The costs less residual value of the tangible capital assets are amortized on a declining-balance basis over their estimated useful lives as follows:

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|                    |          |
|--------------------|----------|
| Condominium        | 25 years |
| Computer equipment | 5 years  |

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# BANFF HOUSING CORPORATION

Notes to the Financial Statements, page 3

Years ended December 31, 2012 and 2011

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## 1. Significant accounting policies (continued):

### (f) Equity interest:

The Corporation does not record its equity interest upon the sale of the Corporation's property unless the Corporation sells all or any portion of the equity interest in the transaction (see note 6).

## 2. Cash/bank indebtedness:

|                                     | December 31,<br>2012 | December 31,<br>2011 | January 1,<br>2011  |
|-------------------------------------|----------------------|----------------------|---------------------|
| Internally restricted cash (note 5) | \$ 574,803           | \$ 536,617           | \$ 446,509          |
| Unrestricted cash                   | 182,619              | 196,855              | 176,217             |
| Construction line of credit         | –                    | –                    | (1,042,823)         |
|                                     | <u>\$ 757,422</u>    | <u>\$ 733,472</u>    | <u>\$ (420,097)</u> |

The Bank of Montreal has authorized a general line of credit to the Corporation in the amount of \$1,300,000 (December 31, 2011 - \$250,000 operating line and \$3,500,000 construction line; January 1, 2011 - \$250,000 operating line and \$3,500,000 construction line). The line of credit is guaranteed by the Town of Banff and bears interest at the bank's prime rate minus 0.75%. As at December 31, 2012 there was \$nil (December 31, 2011 – \$nil; January 1, 2011 - \$1,042,823) drawn against the line of credit. Internally restricted cash and unrestricted cash generate returns of the bank's prime rate minus 1.80%.

# BANFF HOUSING CORPORATION

Notes to the Financial Statements, page 4

Years ended December 31, 2012 and 2011

### 3. Tangible capital assets:

| December 31, 2012  | Cost              | Accumulated depreciation | Net book value    |
|--------------------|-------------------|--------------------------|-------------------|
| Condominium        | \$ 280,000        | \$ 96,682                | \$ 183,318        |
| Computer equipment | 2,318             | 894                      | 1,424             |
|                    | <u>\$ 282,318</u> | <u>\$ 97,576</u>         | <u>\$ 184,742</u> |

| December 31, 2011  | Cost              | Accumulated depreciation | Net book value    |
|--------------------|-------------------|--------------------------|-------------------|
| Condominium        | \$ 280,000        | \$ 89,044                | \$ 190,956        |
| Computer equipment | 2,043             | 572                      | 1,471             |
|                    | <u>\$ 282,043</u> | <u>\$ 89,616</u>         | <u>\$ 192,427</u> |

| January 1, 2011    | Cost              | Accumulated depreciation | Net book value    |
|--------------------|-------------------|--------------------------|-------------------|
| Condominium        | \$ 280,000        | \$ 81,088                | \$ 198,912        |
| Computer equipment | 2,043             | 204                      | 1,839             |
|                    | <u>\$ 282,043</u> | <u>\$ 89,616</u>         | <u>\$ 200,751</u> |

On July 11, 2003, the Corporation assumed a lease agreement from Government of Canada for two condominium units. The lease is treated as capital in nature as it transferred substantially all the benefits and risks incident to ownership of the property to the Corporation.

These contributed assets were recorded at their fair value of \$280,000 on the date of assignment of the lease. Amortization has been recorded on these assets since July 11, 2003.

# BANFF HOUSING CORPORATION

Notes to the Financial Statements, page 5

Years ended December 31, 2012 and 2011

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## **4. Second mortgages receivable/deferred revenue:**

Deferred revenue arose from mortgages receivable with respect to the Middle Springs I housing development in the Town of Banff. The mortgages are registered against the titles of the properties but become due only when the initial owner ceases to reside in the Middle Springs I development. The full amount of the mortgages is recorded as non-current second mortgage receivable and deferred revenue. When a mortgage becomes due, the revenue is recognized.

During the year, the Corporation collected \$62,000 (December 31, 2011 - \$93,000) towards second mortgages receivable.

## **5. Internally restricted net assets:**

The Corporation has placed internal restrictions on the excess of revenues over expenses from value priced housing operations of \$nil (December 31, 2011 - (\$11,901)), and interest income on internally restricted cash of \$6,186 (December 31, 2011 - \$6,218) to be used for future housing development. During the year the Corporation transferred \$nil (December 31, 2011 - \$50,000) out of internally restricted net assets that had previously been borrowed from the unrestricted fund associated with a deposit for a housing development. The Corporation has a policy to internally restrict second mortgage revenue in excess of \$30,000, which restricted internally \$32,000 of this revenue (December 31, 2011 - \$63,000).

## **6. Investment – equity interest in housing units at cost:**

The purpose of the Corporation is to provide value priced housing to long-term residents of the Town of Banff. The Corporation attempts to meet this objective by developing and selling housing units to homeowners at the actual costs required to construct the housing units. The Corporation retains an equity interest in each unit that it sells. This equity interest is determined at the time each unit is initially sold to each homeowner and is calculated as the difference between the fair market value of the unit (determined by an independent appraiser) and the sale price of the unit when it is initially sold to each homeowner.

As at December 31, 2012, there were 183 properties in the Corporation's value priced housing portfolio, and the equity interest ranged from 0% to 35% of the fair market value of each property. This equity interest is not recognized in the financial statements as the timing and amount of consideration that could eventually be realized by the Corporation for this equity interest is not determinable. However, per the terms of its sublease agreement with sub lessees (homeowners) the Corporation can realize any/all of its equity interest upon any sublease disposition of a Corporation property (sale by sub lessee) if it so chooses.

# BANFF HOUSING CORPORATION

Notes to the Financial Statements, page 6

Years ended December 31, 2012 and 2011

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## **6. Investment – equity interest in housing units at cost (continued):**

During 2012 the Corporation acquired no properties (2011 – no properties were acquired) and sold no properties (December 31, 2011 – 4 properties were sold for proceeds of \$1,142,404; the Corporation retained a 20% equity interest in these properties). The excess of cost over realized value of properties sold is \$nil (December 31, 2011 – \$7,730).

## **7. Related party transactions & economic dependence:**

There is an agreement between the Town of Banff and the Corporation for the Town of Banff to administer the Corporation's payroll function. The Corporation used office space owned by the Town of Banff. These services were provided from the Town of Banff to the Corporation at no charge.

As at December 31, 2012 there was an amount of \$31,512 (December 31, 2011 - \$32,455; January 1, 2011 - \$36,453) payable to the Town of Banff relating to payroll and \$16,612 (December 31, 2011 \$2,121; January 1, 2011 - \$3,087) receivable towards interest and reimbursement of costs.

During the year, the Corporation recognized revenues of \$24,483 (December 31, 2011 - \$nil) from the Town of Banff as a reimbursement for costs incurred in relation to a housing study.

The ability of the Corporation to continue as a going concern depends upon its ability to receive funding from the Town of Banff. These transactions occurred in the normal course of operations and were recorded at the exchange amount, which was the amount agreed to between the related parties.