

INDIGENOUS
& NORTHERN
HOUSING

On-Reserve Non Profit Housing Program (Section 95)

**Help With
Your Financial
Statement**

Pre-1997



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Directions for Use of This Guide

In accordance with the Operating Agreement(s) signed with Canada Mortgage and Housing Corporation (CMHC), an Audited Financial Statement prepared under **CAS 800 Special Considerations**, must be received by CMHC no later than four (4) months following the First Nations fiscal year end. Delays will result in suspension of the subsidy assistance provided to the community.

Note

CAS 800 permits auditors to prepare a Financial Statement Report using a basis of accounting other than GAAP.

Please note that CMHC offers two different housing programs under Section 95 – Pre 1997 and Post 1996. The subsidy calculations and other reporting formats differ and as such projects committed under each program must be reported separately.

To assist you in understanding these differences, CMHC has prepared two separate guides which outline the reporting requirements for the different versions of the program. Please ensure you are referring to the correct guide.

This Guide is intended to illustrate, and explain the requirements for annual financial statements for projects financed and subsidized under CMHC's Pre-1997 On-Reserve Non-Profit Housing Program.

In addition to the guide, you should have the following documents:

- CMHC Project Operating Agreement which outlines the terms and conditions of funding;
- Subsidy confirmation which verifies payments made to the First Nation through CMHC for the fiscal year under audit;
- Mortgage Payment Confirmation for period of review from the lender for all projects funded under section 95 (note: the lender may be CMHC or other financial institutions);
- Copy of the previous year's Financial Statement review and comments from CMHC which notates any adjustments required in the current audit;
- Verification from CMHC of the number of units that have matured during the reporting year.

All of the above documents have been provided to the First Nation community by CMHC and the lender (if an external financial institution) and should be obtained directly from the community.

Auditors' Report

Independent Auditors' Report

To [the Members of First Nation]:

Report on the Financial Statements

We have audited the accompanying financial statements of First Nation Section 95 Social Housing Operation, which comprise the statement of financial position, statement of revenue and expenses, statement of cash flows and statements of funded reserves as at March 31, 20XX, and the related summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of [First Nation] based on the funding agreement between First Nation Section 95 Social Housing Operation and Canada Mortgage and Housing Corporation (CMHC).

Management's Responsibility for Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the funding agreement between First Nation Section 95 Social Housing Operation and CMHC, 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 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 of 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 auditors' 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 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of First Nation Section 95 Social Housing Operation for the year ended March 31, 20XX are prepared, in all material respects, in accordance with the funding agreement between First Nation Section 95 Social Housing Operation and CMHC.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist First Nation Section 95 Social Housing Operation to comply with the reporting provisions of the funding agreement referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the [Members of First Nation] and CMHC and should not be used by parties other than the [Members of First Nation] and CMHC.

City, Province
Date of Independent Auditors' Report
Independent Auditor

Statement of Financial Position

1. Assets

Cash and Short-Term Deposits: Includes petty cash, unrestricted cash in bank and short-term deposits.

Accounts Receivable: Includes uncollected rents for occupancy.

Restricted Cash

Replacement Reserve: Actual funded amount as of current fiscal year end.

Subsidy Surplus fund: Actual funded amount as of current fiscal year end.

Other Receivables: Includes accrued CMHC subsidy and bank interest.

Prepaid Expenses: Includes insurance and contract fees.

Land and Building: Usually as stated in statement of Final Capital Costs¹. Land and Building are combined since both are usually financed by long-term debt and depreciated by an amount equal to the annual repayment of principal. Major repairs/replacements are charged directly against the replacement reserve account.

Accumulated Amortization: Total principal repaid as at statement date.

2. Liabilities

Accounts Payable and Accrued Liabilities: Includes accrued expenses (interest, insurance) and unpaid bills.

Excess Subsidy due to CMHC: Operating surplus for the year less any amount transferred to the Subsidy Surplus Fund during the period.

Other Liabilities: Includes prepaid rents, security deposits, key deposits, monies held in trust, etc.

Current Portion of Long-Term Debt: Principal portion of loan payments due during the next period.

Reserves

Subsidy Surplus Fund: Amount funded as per the Operating Agreement.

3. Equity

Contributed Surplus: Includes First Nation contributions and ISC capital grants.

Reserves

Replacement Reserve: Amount funded as per the Operating Agreement

¹ The First Nations must submit a statement of audited final total capital costs to CMHC within six months of the Interest Adjustment Date. This statement will confirm costs and the final loan amount will form the basis for any change, in the event of loan decreases, to the level of Section 95 assistance.

First Nation Social Housing Operation

Statement of Financial Position

March 31, 20XX

	20XX	20XW
1. Assets		
Current		
Cash & Short-Term Deposits		
Accounts Receivable		
Other Receivables		
Prepaid Expenses		
Restricted Cash & Deposits		
Replacement Reserve Fund (Notes 2 & 9)*		
Operating Reserve Fund (Notes 3 & 9)*		
Fixed Assets (Notes 1 & 4)*		
Land & Building		
Less: Accumulated Amortization (Note 1)*		
Other Assets		
Total		
2. Liabilities		
Current		
Accounts Payable & Accrued Liabilities		
Excess Subsidy Due to CMHC		
Other (specify where material)		
Current Portion of Long-Term Debt (Note 5)*		
Long-Term Debt (Notes 5 & 6)*		
Less: Current Portion		
3. Equity		
Contributed Surplus (Note 6)*		
Replacement Reserve (Notes 2 & 9)*		
(Deficit) (Note 9)*		
Total		

*See Notes to the Financial Statements

(Signatures approving on behalf of council to be provided)

Statement of Revenue and Expenses

4. Revenue

Rental Revenue: Total amount of rental revenue from income-tested and non-income-tested occupants.

CMHC Subsidy: CMHC subsidy is accrued. Therefore, the first payment in the period is excluded (except if the period is the initial year of operations) as it relates to last month of the previous period, and the first payment for the following period is included as it relates to the last month of the period under audit.

5. Expenses

Insurance: Includes fire, floods, equipment losses, theft, public liability, etc.

Maintenance and Repairs: Includes repairs, painting, furnace servicing, landscaping, exterminating, cleaning and maintenance supplies, cost of service contracts (except for snow and garbage removal; these should be shown separately). Does not include expenditures eligible as a charge against the replacement reserve.

Heat, Electrical Power, Water: Must be shown separately unless source of heating is electricity. Includes any utility charges paid directly by the housing project. Utility charges paid directly by occupants are not to be included.

Amortization: Equal to principal reduction on loan during period as confirmed by lender.

Replacement Reserve: Annual amount to be set aside is specified on Schedule “D” of the operating agreement.

Administration: Includes office expenses (telephone, supplies, etc.), administrative salaries, bank charges and management fees.

Loan Interest: Loan interest is accrued. Therefore, the interest portion of the first payment in the period under audit is excluded (unless the period is the initial year of operations) as it relates to the last month of the previous period and the interest portion of the first payment of the following period is included as it relates to the last month of the period under audit.

Bad Debts: Includes any amounts due that have been deemed during the period as uncollectible. Bad debts will only be recognized if all reasonable attempts to collect have been exhausted.

Professional Fees: Includes legal, accounting and audit fees.

Snow Removal: Cost of service contracts.

Garbage Removal: Cost of service contracts.

Other Expenses: Includes cost of servicing contracts relating to security, interest on tenants deposits or prepaid rent and any other expenses not covered above.

Transfer to/from Subsidy Surplus Reserve for the Year: Amount transferred from Subsidy Surplus Reserve to the operating account to meet subsidy requirements of income-tested occupants over and above the CMHC subsidy available for this purpose for the period. Or, unused portion of assistance transferred from operating account to the reserve during the period.

Excess Subsidy due to CMHC for the Year: Difference between operating surplus for the year and amount transferred to the Subsidy Surplus Fund during the period.

First Nation Social Housing Operation

Statement of Revenue and Expenses

For the Year Ended March 31, 20XX

	20XX	20XW
4. Revenue		
Rental Revenue:		
Canada Mortgage and Housing Corporation Subsidy		
Other (specify, where material)		
5. Expenses		
Insurance		
Maintenance & Repairs		
Electrical		
Heat		
Water		
Administration		
Allocation to Replacement Reserve (Note 2)*		
Amortization (Note 1)*		
Loan Interest		
Bad Debts		
Professional Fees		
Snow Removal		
Garbage Removal		
Other (specify if material)		
Net Income/ (Deficit) for the Year		
(Deficit) Beginning of the Year		
Transfer (to)/from Subsidy Surplus Reserve for the Year (Note 3)*		
Adjustment due to Matured units (Note 9)*		
(Deficit) End of the Year		
* See Notes to the Financial Statements		

Statement of Cash Flows

6. Operating Activities

CMHC Section 95 Assistance Received: Total amount of CMHC subsidy payments actually received during the period.

Rental Revenue Received: Total amount of rental revenue actually collected from income-tested and non-income-tested occupants. Does not include accounts receivable.

Other Receipts: All other revenue received during the period. Does not include accruals and accounts receivable.

Payments for Operating Expenses: Total amount of monies actually disbursed for insurance, maintenance, etc. Exclude allocation to replacement reserve, loan principal and interest.

Loan interest: Interest portion of actual payments remitted to lender during period.

Allocation to Replacement Reserve: Amount transferred from operating account to replacement reserve account during period.

Transfer to/from Subsidy Surplus Reserve: Amount transferred to operating account to meet subsidy requirements of income-tested occupants over and above the CMHC subsidy available for this purpose for the period. Or, unused portion of assistance available for income-tested occupants transferred from operating account during the period.

7. Financing Activities

Repayment of Loan Principal: Principal reduction as confirmed by lender during period.

First Nation Social Housing Operations

Statement of Cash Flows

For the Year Ended March 31, 20XX

	20XX	20XW
6. Operating Activities		
Cash from Operations		
CMHC Section 95 Assistance Received		
Rental Revenue Received		
Other Receipts		
Payments for Operating Expenses		
Payments for Loan Interest		
Allocation to Replacement Reserve		
Transfer (to)/from Operating Reserve		
7. Financing Activities		
Repayment of Loan Principal		
Change in Unrestricted Cash & Cash Equivalents during the Year		
Unrestricted Cash & Cash Equivalents at Beginning of Year		
Unrestricted Cash & Cash Equivalents at End of Year (Note 7) *		

* See Notes to the Financial Statements

Statement of Funded Reserves

8. Replacement Reserve

Interest Income for the Year: Interest earned (received and/or accrued on funds during period).

Allocation for the Year: Annual credit to the reserve shown on statement of revenue and expenses.

Expenditure for Year: Disbursements of capital nature made from the Replacement Reserve do not require pre-approval from CMHC.

Adjustment due to matured units: Apply based on data provided to First Nation by CMHC.

Balance End of the Year: Disbursements during the period are deducted from interest first and then principal.

9. Subsidy Surplus Reserve

Interest Income for the Year: Interest earned on funds during period.

Transfer to/from Operations for the Year: Amount transferred to the operating account to meet subsidy requirements of income-tested occupants over and above the CMHC subsidy available for this purpose for the period. Or, unused portion of assistance transferred from the operating account during the period.

Adjustment due to matured units: Apply based on data provided to First Nation by CMHC.

Balance End of the Year: Transfers to operations are credited against interest first and then principal. Once the principal amount in the fund has accumulated to \$500 per unit, the balance of the excess subsidy must be refunded to CMHC. Refer to Note 3 in Notes to the Financial Statements.

First Nation Social Housing Operation

Statement of Funded Reserves

For the year ended March 31, 20XX

	20XX	20XW
8. Replacement Reserve (Note 2)*		
Balance, Beginning of the Year:		
Principal		
Interest		
Interest Income for the Year		
Allocation for the Year		
Expenditure for the Year		
Adjustment due to matured units (Note 9)*		
Balance, End of the Year:		
Principal		
Interest		
9. Subsidy Surplus Reserve (Note 3)*		
Repayment of Loan Principal		
Principal		
Interest		
Interest Income for the Year		
Transfer (to)/from Operations for the Year		
Adjustment due to matured units (Note 9)*		
Balance, End of the Year:		
Principal		
Interest		
* See Notes to the Financial Statements		

First Nation Social Housing Operation

Notes to the Financial Statements

March 31, 20XX

1 Significant Accounting Policies

Fixed Assets: Fixed Assets are recorded at cost.

Revenue and Expenses: Revenue and expenses are recorded according to the accrual basis of accounting.

Amortization: Amortization provided on building and furniture and equipment purchased from loans insured by CMHC at a rate equal to the annual principal reduction of the loan. No amortization is charged on other fixed assets; however, a Replacement Reserve is maintained to provide for future asset replacement.

2. Replacement Reserve

The Replacement Reserve account is funded by an annual charge against earnings as opposed to an appropriation of surplus. Interest earnings and expenditures are charges against the reserve.

Replacement Reserve: Under the terms of the agreement with Canada Mortgage and Housing Corporation, the Replacement Reserve account is to be credited in the amount of \$ _____ annually. 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 from time to time. The funds in the account may only be used as approved by CMHC. At year-end, the funds in the reserve consisted of the following:

	20XX	20XW
Cash	_____	_____
Securities (provide details)	_____	_____
	_____	_____

3. Subsidy Surplus Reserve

Under the terms of the agreement with Canada Mortgage and Housing Corporation, excess federal assistance payments received may be retained in a subsidy surplus reserve up to a maximum of \$500 per unit plus interest. The reserve is to be comprised of monies deposited 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 from time to time. The funds in this account may only be used to meet future subsidy requirements of income-tested occupants over and above the maximum federal assistance. Withdrawals are credited to interest first and then principal. At year-end the funds in the Subsidy Surplus Reserve consisted of the following:

	20XX	20XW
Cash	_____	_____
Securities (provide details)	_____	_____
	_____	_____

(continued)

4. Fixed Assets

	Cost	Accumulated Depreciation	Net Book Value	
			20XX	20XW
Land and Building				

5. Long-Term Debt

Standard disclosure as required by Section 3210 of the CICA Handbook.

6. Contributed Surplus

	20XX	20XW
At year-end contributed surplus consisted of the following: (provide details)		

7. Cash and Cash Equivalents

At year-end cash and cash equivalents consisted of the following:

	20XX	20XW
Cash		
Securities (provide details)		

8. Related Party Transactions

Standard disclosure as required by Section 4231 of the CICA Handbook (- related party transactions, disclosure considerations).

9. Matured Units

At year end, adjustments are required where units have matured based on information provided by CMHC to the First Nation.

Auditors' Report on Compliance With Agreement

To: Canada Mortgage and Housing Corporation

We have audited First Nation Social Housing Operations compliance as at March 31, 20XX, with the criteria established in:

1. Paragraph 15 of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Replacement Reserve and the interest income related thereto.
2. Sub-paragraphs 4(7-11) of the First Nation's Operating Agreement with CMHC in respect of funding and maintenance of the Subsidy Surplus Reserve and the interest income related thereto.
3. Sub-paragraph 2(5) of the First Nation's Operating Agreement with CMHC in respect of:
 - (1) Verification of the incomes of lessees paying rent according to the rent to income scale
 - (2) Application of a rent-to-income ratio for those lessees.
 - (3) Adjustment of the rental charges for rent-to-income lessees.
4. Paragraph 13(5)(d) of the First Nation's Operating Agreement with CMHC in respect of verification of the Annual Project Data Report.

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CMHC helps Canadians meet their housing needs

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer unbiased housing research and advice to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

You can also reach us by phone at **1-800-668-2642** or by fax at **1-800-245-9274**.

Outside Canada call **613-748-2003** or fax to **613-748-2016**.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call **1-800-668-2642**.