

K-W HABILITATION SERVICES

**FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2018**

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
MARCH 31, 2018

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of K-W Habilitation Services. The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of K-W Habilitation Services. Management maintains a system of internal accounting and administration controls which are designed to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements. Management has determined that the enclosed financial statements are presented on a consistent basis with prior years.

The Finance Committee reviews and makes recommendations to the Board of Directors who review and approve the annual financial statements. In addition, the Finance Committee meets with management of K-W Habilitation Services and the external auditors, and reports to the Board of Directors thereon. The Finance Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, the auditors of the Agency, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the Board of Directors. The auditors have access to the Finance Committee, without management present, to discuss the results of their work.



Jeffrey Collins
President of the Board



Ann Bilodeau
Executive Director

INDEPENDENT AUDITORS' REPORT

To the Directors of
K-W Habilitation Services

We have audited the accompanying financial statements of **K-W Habilitation Services**, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, fund balances and cash flows for the year then ended, and 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 accounting standards for not-for-profit organizations, 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 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 judgement, 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The Agency does not amortize capital assets which are acquired with Agency funds, and does not capitalize capital assets which are funded by government subsidies. Instead, capital assets are charged to operations in the period the subsidy is received. The Agency receives certain subsidies that are restricted in that the subsidy must be used to purchase capital assets. Since the Agency does not capitalize and amortize capital assets, it does not identify restricted contributions and defer the recognition of income on the same basis as amortization. All government subsidies are recognized as income in the year received. The effects on the financial statements of these departures from accounting standards for not-for-profit organizations have not been determined, as it is not practicable to do so.

In addition, in common with many charitable organizations, the Agency derives a portion of its revenue from fundraising and donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Agency and we were not able to determine whether any adjustments might be necessary to revenues, deficiency of revenue over expenditure, current assets and fund balances.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **K-W Habilitation Services** as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Cambridge, Ontario
June 1, 2018

Chartered Professional Accountants, authorized to practise public
accounting by the Chartered Professional Accountants of Ontario

Celebrating 50 Years

**STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2018**

	2018 Budget \$ (note 12) (Unaudited)	2018 Actual \$	2017 Actual \$
Revenue			
Grants			
MCSS: Operating	13,054,157	13,932,811	13,495,230
MCSS: Dedicated Supportive Housing	162,038	162,038	162,038
MCSS: Discretionary/Infrastructure		796,100	139,000
MCYS: Operating	454,264	562,235	524,059
Region of Waterloo	3,219,208	3,215,764	3,267,412
HRDC (Government of Canada)	6,890	27,182	44,993
Expenditure recovery	550,000	716,807	573,837
Residents' and participants' fees	1,550,000	1,565,233	1,575,589
Community participation (note 14)	225,000	8,570	7,126
	19,221,557	20,986,740	19,789,284
Operating expenses			
Staff costs	15,500,000	15,961,092	15,809,421
Purchased services and supplies	1,436,557	2,495,822	1,712,253
Dietary costs	485,000	473,582	482,142
Facilities costs	1,500,000	1,331,869	1,425,244
Replacements and new equipment	150,000	526,917	172,402
Other	150,000	200,189	224,553
	19,221,557	20,989,471	19,826,015
Deficiency of revenue over expenditure before undernoted items		(2,731)	(36,731)
Other			
Other revenues		170,564	97,020
Unrealized investment gain		10,499	107,169
		181,063	204,189
Excess of revenue over expenditure for year	NIL	178,332	167,458


**STATEMENT OF FUND BALANCES
YEAR ENDED MARCH 31, 2018**

	Property and Equipment \$	Operating Fund \$	Contingency Fund \$	2018 \$	2017 \$
Fund balances, beginning of year	1,862,010	(2,277,068)	1,408,404	993,346	825,888
Principal repayments	142,926			142,926	142,600
Excess of revenue over expenditure for year		178,332		178,332	167,458
Transfers		(188,363)		(188,363)	(272,219)
Unrealized investment income			10,499	10,499	107,169
Income on contingency fund			34,938	34,938	22,450
Fund balances, end of year	2,004,936	(2,287,099)	1,453,841	1,171,678	993,346

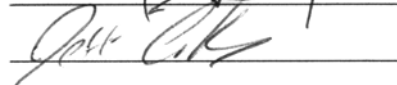
**FINANCIAL POSITION
MARCH 31, 2018**

	2018 \$	2017 \$
ASSETS		
Cash - capital replacement reserve fund (note 11)	12,512	6,567
Accounts receivable	445,038	130,128
Prepaid expenses	849	27,230
Current assets	458,399	163,925
Affordable housing project development costs (note 19)	1,890,751	393,261
Contingency fund investments (note 7)	1,453,841	1,408,404
Capital assets (note 5)	3,755,650	3,755,650
	7,558,641	5,721,240
LIABILITIES		
Bank indebtedness (note 8)	1,193,723	1,025,415
Bank indebtedness - affordable housing project (note 8)		393,261
Accounts payable and accrued liabilities (note 6)	1,772,307	53,763
Accrued salaries and benefits (note 6)	1,146,817	973,383
Deferred revenue (note 17)	254,328	9,539
Funds held for Region of Waterloo (note 15)	254,559	370,323
Long-term debt (note 9)	136,328	1,325,444
Current liabilities	4,758,062	4,151,128
Capital replacement reserve fund (note 11)	12,512	6,567
Long-term debt (note 9)	1,616,389	570,199
	6,386,963	4,727,894
FUND BALANCES		
Fund balances (page 4)	1,171,678	993,346
	7,558,641	5,721,240

APPROVED BY THE BOARD:



Director



Director

**STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018**

	2018 \$	2017 \$
Cash flows from operating activities:		
Excess of revenue over expenditure for year	178,332	167,458
Unrealized gain on contingency fund investments	(10,499)	(107,169)
	167,833	60,289
Net change in non-cash working capital balances relating to operations:		
Accounts receivable	(314,910)	121,726
Subsidies payable		(3,888)
Prepaid expenses	26,381	26,985
Deferred revenue	244,789	9,539
Accounts payable and accrued liabilities	1,718,544	32,575
Accrued salaries and benefits	173,434	(96,000)
	2,016,071	151,226
Cash flows from investment activities:		
Additions to contingency fund investment	(34,938)	(22,450)
Affordable housing project development costs	(1,497,490)	(52,127)
	(1,532,428)	(74,577)
Cash flows from financing activities:		
Repayment of long-term debt	(142,926)	(142,600)
Change in capital replacement reserve fund	5,945	5,945
Change in funds held for Region of Waterloo	(115,764)	(140,894)
	(252,745)	(277,549)
Net increase (decrease) in cash	230,898	(200,900)
Bank advances, beginning of year	(1,412,109)	(1,211,209)
Bank advances, end of year	(1,181,211)	(1,412,109)
Cash position includes:		
Bank indebtedness	(1,193,723)	(1,025,415)
Bank indebtedness - affordable housing project		(393,261)
Cash - capital replacement reserve fund	12,512	6,567
	(1,181,211)	(1,412,109)

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

1. Nature of the Organization

K-W Habilitation Services (the Agency) is incorporated as a non-share capital corporation under the laws of Ontario and is registered as a charitable organization with Canada Revenue Agency.

The Agency works together with the community to inspire abilities to enrich the lives of children, youth, adults and families.

As K-W Habilitation Services is a registered charity under the Income Tax Act, its income is not taxable and it is eligible to issue official income tax receipts for charitable donations.

2. Summary of Significant Accounting Policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Supplies

The Agency has adopted a policy of not recognizing supplies as an asset when the activities of the program are substantially or totally funded by government subsidies.

(b) Amortization of capital assets

The original cost of capital assets acquired with Agency funds are recorded as capital assets, while replacements and new capital assets, which are substantially or totally funded by government subsidies, are charged to operations. No amortization of capital assets is recorded in the accounts. This is not in accordance with Canadian accounting standards for not-for-profit organizations.

(c) Revenue recognition

The Agency follows the deferral method of accounting for contributions.

Donations received, which are expendable by the Agency, are reported as income in the Operating fund in the year in which they are received.

Donations received, which are not at the complete disposal of the Agency, are reported as an increase in the restricted fund (capital replacement reserve fund) balance. The funds are reported as income when they are used for specific purposes or when the restrictions on the funds are released.

Subsidies are recognized as income in the year they are earned.

Interest received on unrestricted funds is reported as income in the year it is earned.

Interest received on restricted funds (capital replacement reserve fund) is reported as an increase in the restricted fund balances.

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

2. Summary of Significant Accounting Policies (Continued)

(d) Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

(e) Financial instruments

Investments are shown on the statement of financial position at their fair values at the year-end date, with changes in fair value recognized in the statement of operations. All other financial assets and liabilities are recorded at amortized cost less any discovered impairment.

(f) Contributed services and materials

Donations of materials and services are not reflected in these financial statements because of the impracticality of the record keeping and valuation of them.

(g) Deferred revenue

Deferred revenue consists of donations or grants received during the year which relate to expenditures to be incurred in subsequent fiscal years.

(h) Fund accounting

To ensure observation of restrictions placed on the use of resources available to the Agency, the accounts are maintained in accordance with the principles of fund accounting. The resources are classified for accounting and reporting purposes into the following funds which have been established according to their nature and purpose:

The **Operating fund**, accounts for the Agency's program delivery and administrative activities.

The **Property and Equipment fund**, reports the assets and liabilities related to the capitalized capital assets acquired by the Agency.

The **Contingency fund**, is an internally restricted fund intended to provide operating flexibility in the event of reduced operating revenues, or for possible investments in growing the Agency's organizational capability, and is not available for unrestricted purposes without approval of the Board of Directors. These funds are held in a separate bank account and/or investments.

(i) Inter-fund transfers

Inter-fund transfers represent principal repayments funded by the Operating Fund on behalf of the Property and Equipment Fund, and realized and unrealized income (loss) on contingency fund investments funded by the Operating Fund on behalf of the Contingency Fund.

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

3. Subsidies Payable

The Agency qualifies for subsidies for its programs from the Ministry of Community and Social Services (MCSS), the Ministry of Children & Youth Services (MCYS), Human Resources and Skills Development Canada (HRDC) and the Region of Waterloo. The subsidies payable is the difference between the amounts advanced to the Agency and the subsidies earned.

4. Capital Asset Additions Included in Expenditures

Capital asset additions funded by grants or subsidies provided by third parties totalling approximately \$1,019,950 (\$159,300 in 2017) have been included in expenditures shown on the Statement of Operations.

	2018	2017
	\$	\$
5. Capital Assets		
Cost		
David Fisher Residence, Erbsville		
Property	268,168	268,168
Major renovation	484,305	484,305
Ministry funding - major renovation	(484,305)	(484,305)
Equipment and furnishings	51,514	51,514
	319,682	319,682
University Avenue, Waterloo		
Property	275,938	275,938
Equipment and furnishings	46,593	46,593
	322,531	322,531
Frederick Street and Wordsworth Homes, Kitchener		
Property	571,816	571,816
Equipment and furnishings	8,456	8,456
	580,272	580,272
Belmont Street Group Home	83,727	83,727

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

5. Capital Assets (Continued)	2018	2017
	\$	\$
Cost		
Stirling Avenue Group Home		
Property	285,000	285,000
Equipment and furnishings	5,581	5,581
Ministry funding	(284,999)	(284,999)
	5,582	5,582
Eby Street Group Home		
Property	105,043	105,043
Equipment and furnishings	2,850	2,850
	107,893	107,893
Avalon Street Group Home		
Property	521,651	521,651
Equipment and furnishings	7,960	7,960
Ministry funding	(521,602)	(521,602)
	8,009	8,009
Pinnacle Drive Group Home		
Property	548,456	548,456
Ministry funding	(548,413)	(548,413)
Equipment and furnishings	8,033	8,033
	8,076	8,076
Lexington Group Home		
Property	350,000	350,000
Ministry funding	(350,000)	(350,000)
	NIL	NIL
Ottawa Street		
Property	6,030,849	6,030,849
Equipment and furnishings	1,828	1,828
Ministry funding	(3,711,000)	(3,711,000)
Designated contributions received	(1,048,813)	(1,048,813)
	1,272,864	1,272,864
Vehicles	48,876	48,876
Capitalized costs of Assured Housing Program	998,138	998,138
Net Book Value	3,755,650	3,755,650

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

	2018 \$	2017 \$
6. Accounts Payable and Accrued Liabilities		
Accounts payable and accrued liabilities	1,772,307	53,763
Accrued salaries and benefits	1,144,524	924,655
Government remittances payable	2,293	48,728
	2,919,124	1,027,146

7. Contingency Fund Investments

The contingency fund investments, stated at fair market value, is comprised of the following:

Cash	88,268	5,236
Bonds	473,462	631,055
Equities	892,111	772,113
	1,453,841	1,408,404

The bonds have maturity dates ranging between July 2018 and June 2022 and bear interest at rates ranging from 1.61% to 3.21%.

During the 2010 fiscal year, the Finance Committee made a recommendation to the Board of Directors who approved the withdrawal of \$88,000 from the contingency fund investments, in the form of a loan, to cover the purchase cost of a vehicle. During 2017 the loan obligations were fully extinguished.

8. Bank Indebtedness

The Agency has an operating loan available to a maximum of \$1,500,000. At year end, \$670,000 was drawn on this facility. The operating loan is due on demand and bears interest at the bank's prime rate (3.45% at March 31, 2018) and is secured by a general security agreement. Additional outstanding cheques issued resulted in a bank indebtedness balance of \$1,193,723 in the Statement of Financial Position.

At the end of the prior year, the Agency had a short-term operating loan available for the affordable housing project, which was extended to cover the costs to be incurred prior to the initial funding payment being received. During the current fiscal year the loan was extinguished and repaid in full once the initial funding payment was received.

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

9. Long-Term Debt	2018	2017
	\$	\$
Mortgage - Canada Mortgage and Housing Corporation Registered against Assured Housing Program properties. The mortgage bears interest at 1.11% and is payable in monthly instalments of \$4,228 including interest and principal. The mortgage matures in April 2021.	290,707	337,987
Mortgage - Canada Mortgage and Housing Corporation Registered on the Frederick Street and Wordsworth Place Group Home properties. The mortgage bears interest at 1.12% and is payable in monthly instalments of \$2,114 including interest and principal. The mortgage renews in February 2020.	279,460	301,595
Term Loan - RBC Royal Bank Registered on the Eby Street property. The loan bears interest at prime plus 0.75% and is payable in monthly principal payments of \$375 plus interest and is due on demand.	10,076	13,579
Term Loan - RBC Royal Bank Secured by real property. The loan bears interest at 3.58% and is payable in monthly instalments of \$8,071 including interest and principal. The loan matures in March 2021.	1,172,474	1,242,482
	1,752,717	1,895,643
Current portion due within one year	136,328	1,325,444
	1,616,389	570,199

Principal payments over the next four years will be approximately as follows:

	\$
2019	136,328
2020	363,544
2021	1,107,125
2022	145,720
	1,752,717

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

10. Economic Dependence

The Agency receives annual subsidies from the Government of Ontario and The Region of Waterloo to assist with offsetting the amount of costs incurred by the Agency. The Agency is dependent on receiving these annual subsidies to fund its operations.

11. Capital Replacement Reserve Fund

The Ministry of Community and Social Services has identified that certain amounts provided for within its Dedicated Supportive Housing operating budget were specific to a capital replacement reserve fund. The capital reserve funding is to be reflected in its own capital reserve fund and only spent after receiving Ministry approval.

The approved sources and uses of these funds is summarized as follows:

	2018	2017
	\$	\$
Balance, beginning of year	6,567	622
Capital funding	5,945	5,945
	12,512	6,567
Represented by:		
Cash	12,512	6,567

12. Budget

The budget figures presented for comparison purposes are unaudited and reflect the Ministry fiscal approved revenues and expenditures. Budgeted figures have been classified to conform with the financial statement presentation.

13. Commitments

The Agency leases various properties and vehicles with these costs being subsidized by government grants. As a result, there are no commitments that must be funded directly by the Agency.

EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018

14. Community Participation

The community participation revenues are shown on a net basis on the Statement of Operations and are calculated as follows:

	2018 Budget \$ (note 12) (Unaudited)	2018 Actual \$	2017 Actual \$
Community participation	247,000	34,451	40,910
Cost of sales	(22,000)	(25,881)	(33,784)
	225,000	8,570	7,126

Community participation activities are operated by citizens supported by the Agency to provide learning and skill building opportunities.

15. Funds Held for Region of Waterloo

Pursuant to an agreement, the Agency hold funds in custody on behalf of Region of Waterloo.

16. Service Contract/CFSA Approval with the Ministry of Community and Social Services

K-W Habilitation Services has a Service Contract/CFSA Approval with the Ministry of Community and Social Services. A reconciliation report summarizes by service (detail code) all revenues and expenditures and identifies any resulting surplus or deficit that relates to the Service Contract/CFSA Approval. Any surplus amounts are reflected in accounts payable and accrued liabilities, and any deficit amounts are reflected in the General Fund expenditures.

17. Deferred Revenue

The components of deferred revenue are summarized as follows:

Our Farm Project	5,281	1,177
Early Learning, Childcare and Family Resources	128,806	
Early Learning Technology	34,043	
Employment and Modernization	73,368	
Other	12,830	8,362
	254,328	9,539

**EXPLANATORY FINANCIAL NOTES
YEAR ENDED MARCH 31, 2018**

18. Capital Management

The Agency's investment policy is directed toward the preservation and security of capital. Investments are undertaken in a manner that seeks to ensure the preservation of capital within the overall investment portfolio. The investments are managed through Rae & Lipskie Investment Counsel Inc. and are held by National Bank of Canada.

19. Affordable Housing Project Development Costs

During fiscal 2015, the Agency's Board approved pursuing the development of an Affordable Housing building at 108 Sydney Street in Kitchener. The costs incurred to pursue the Affordable Housing project have continued to be accumulated in the Affordable Housing Project Development Cost account shown on the Statement of Financial Position. Once construction of the Affordable Housing building has been completed the development costs will be transferred and a capital asset will be recognized for the cost of the building.

Subsequent to the year end, the Agency applied for a loan for the Affordable Housing building with Canada Mortgage and Housing Corporation (CMHC) in the amount of \$2,075,500 with an interest rate to be determined at time of loan documentation signing and with a loan amortization period of 50 years. The loan is anticipated to be approved and extended in June 2018.

20. Financial Instrument Risk Management

The entity is exposed to various risks through its financial instruments. The following analysis provides a measure of the entity's risk exposure and concentrations at the year end date.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The entity is exposed to this risk mainly in respect of its amounts payable and accrued liabilities, its operating loan and its long-term debt.

Credit risk

The Agency's exposure to credit risk is indicated by the carrying value amounts of its financial assets. The Agency may be exposed to losses in the future if the carrying amounts of assets are not realized. The Agency is satisfied that the risk of realization has been appropriately provided for.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The entity is mainly exposed to interest rate risk.

Interest rate risk

The entity is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the entity to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The entity is exposed to this type of risk as a result of its investment holdings described in note 7, its long-term debt and its operating loan.