

Financial statement of

**Kawartha Lakes –
Haliburton Housing Corporation**

December 31, 2016

Kawartha Lakes – Haliburton Housing Corporation

as at December 31, 2016

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Independent Auditor's Report

To the Director of
Kawartha Lakes – Haliburton Housing Corporation

We have audited the accompanying financial statements of Kawartha Lakes – Haliburton Housing Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, change in net debt 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 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.

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 misstatements.

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 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, 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 Kawartha Lakes – Haliburton Housing Corporation as at December 31, 2016 and the result of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian Public sector accounting standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
July 7, 2017

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

	2016	2015
	\$	\$
Financial Assets		
Unrestricted		
Cash	1,534,499	111,914
Investments (Note 6)	3,988,837	2,014,302
Accounts receivable and other assets	193,822	16,617
Restricted		
Investment (Note 6)	-	1,613,599
	5,717,158	3,756,435
Liabilities		
Accounts payable and accrued liabilities	736,974	523,362
Due to City of Kawartha Lakes (Note 5)	2,814,827	1,156,974
Accrued interest	13,370	17,056
Long term debt (Note 4)	4,224,021	4,808,824
	7,789,192	6,506,216
Net debt	(2,072,034)	(2,749,781)
Non-financial assets		
Tangible capital assets (Note 3)	34,002,058	33,021,175
Inventory and prepaid expenses	184,036	194,951
	34,186,094	33,216,126
Accumulated surplus (Note 10)	32,114,060	30,466,345

On behalf of the Board

Director

Director

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

as at December 31, 2016

	Budget	2016 Actual	2015 Actual
	\$	\$	\$
Revenue			
Federal subsidy	56,083	213,079	31,814
Provincial subsidy	-	204,359	259,327
Municipal contributions			
Kawartha Lakes – KLHHC	3,468,847	3,468,847	3,471,205
Haliburton	108,630	196,103	216,889
Rental revenue	3,288,228	3,186,506	3,086,929
Fee revenue	96,012	82,767	90,939
Property maintenance revenue	4,891	4,891	4,891
Donations and other revenue	22,609	88,475	34,813
Interest revenue	38,000	27,000	57,851
Gain on disposal of tangible capital assets	-	1,229,237	2,676,854
	7,083,300	8,701,264	9,931,512
Expenses			
Social housing (Note 9)	5,357,684	7,053,549	6,770,323
Annual surplus	1,725,616	1,647,715	3,161,189
Accumulated surplus, beginning of year	30,466,345	30,466,345	27,305,156
Accumulated surplus, end of year	32,191,961	32,114,060	30,466,345

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

as at December 31, 2016

	Budget	2016 Actual	2015 Actual
	\$	\$	\$
Annual surplus	1,725,616	1,647,715	3,161,189
Acquisition of tangible capital assets	-	(2,766,721)	(4,809,506)
Amortization of tangible capital assets	-	1,697,291	1,161,988
Gain on sale of tangible capital assets	-	(1,226,397)	(2,676,854)
Proceeds on sale of assets	-	1,314,944	2,798,500
	1,725,616	666,832	(364,683)
Net change in inventory and prepaid expenses	-	10,915	(36,966)
Change in net debt	1,725,616	677,747	(401,649)
Net debt, beginning of year	(2,749,781)	(2,749,781)	(2,348,132)
Net debt, end of year	(1,024,165)	(2,072,034)	(2,749,781)

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

as at December 31, 2016

	2016	2015
	\$	\$
Operating activities		
Annual surplus	1,647,715	3,161,189
Item not affecting cash		
Amortization of capital assets	1,697,291	1,161,988
(Gain) on disposal of capital assets	(1,226,397)	(2,676,854)
	2,118,609	1,646,323
Changes in non-cash working capital items		
Accounts receivable and other assets	(177,205)	77,444
Inventory and prepaid expenses	10,915	(36,966)
Accounts payable and accrued liabilities	213,612	241,291
Accrued interest	(3,686)	(1,605)
	43,636	280,164
Capital activities		
Acquisition of tangible capital assets	(2,766,721)	(4,809,506)
Proceeds on sale of assets	1,314,944	2,798,500
	(1,451,777)	(2,011,006)
Investing activity		
Increase in investments	(360,933)	(107,773)
Financing activities		
Increase in amount due to City of Kawartha Lakes	1,657,853	14,420
Repayment of long term debt	(584,803)	(562,596)
	1,073,050	(548,176)
Increase (decrease) in cash	1,422,585	(740,468)
Cash, beginning of year	111,914	852,382
Accumulated surplus (Note 10)	1,534,499	111,914

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

1. Nature of Business

On December 15, 2005, Kawartha Lakes – Haliburton Housing Corporation (the “Corporation”) entered into an amalgamation with Non-Profit Housing Corporation (“NPHC”). Under the terms of the agreement, the Corporation and NPHC amalgamated to form a new corporation (also known as Kawartha Lakes – Haliburton Housing Corporation) which commenced operations on January 1, 2006. The corporation is exempt from income taxes under the Income Tax Act. The City (the “City”) is the sole shareholder and this corporation is engaged in the business of providing housing primarily for persons of low or modest income at rentals below the median current rental market in the area of the City and the County of Haliburton.

Effective January 1, 2016 the structure of the Corporation was revised to combine three different divisions consisting of Local Housing Corporation (“LHC”), Non Profit (“NP”) and Affordable Housing Project (“AHP”) into one overall division with the base year subsidy established by taking the 2015 subsidy level and then year over year applying budget directions set by the City. The surplus and capital reserves have been merged into one surplus reserve to fund projects with the City.

2. Significant accounting policies

The financial statements of the Corporation are representations of management prepared in accordance with generally accepted accounting principles for government not-for-profit organizations as recommended by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada.

Accrual basis of presentation

Revenue and expenses are recorded according to the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

2. Significant accounting policies (continued)

Financial instruments

All financial instruments reported on the statement of financial position of the Corporation are measured as follows:

Cash	Fair Value
Accounts Receivable and other assets	Amortized costs
Investments	Fair value
Accounts payable and accrued liabilities	Amortized costs
Long-term debt	Amortized costs

The fair value of investments is determined by the market value of investments. Transaction costs are expensed as incurred. The carrying value of cash, accounts receivable and other assets, accounts payable and accrued liabilities approximate respective fair values due to their relatively short-term maturity. The carrying value of long-term debt approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions of similar items.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

	Useful life –Years
Land improvements	20-30
Buildings	50
Vehicles	10-15
Equipment	15-20

Annual amortization is charged in the year of acquisition and in the year of disposal. Tangible capital assets under construction are not amortized until the tangible capital assets is in service.

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

1. Significant accounting policies (continued)

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Amounts requiring significant estimates include tangible capital assets, accounts payable and accrued liabilities.

2. Tangible capital assets

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Land and land improvements	3,871,970	1,139,385	2,732,585	3,265,221
Buildings	59,025,277	30,376,055	28,649,222	24,360,289
Equipment and vehicles	1,193,549	560,244	633,305	689,907
Work in progress	1,986,946	-	1,986,946	4,705,758
	66,077,742	32,075,684	34,002,058	33,021,175

3. Long-term debt

	2016	2015
	\$	\$
Non-Profit housing Providers Stock		
Mortgages		
1.62%, payable \$10,567 monthly (Principal and interest), due February 2018	146,489	269,845
1.62%, payable \$15,537 monthly (principal and interest), due February 2023	1,107,861	1,261,107
0.96%, payable \$12,811 monthly (principal and interest), due October 2021	649,950	787,625
5.83%, payable \$25,793 monthly (principal and interest), due May 2024	2,319,721	2,490,247
Total debt	4,224,021	4,808,824

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

4. Long-term debt (continued)

Responsibility for the payment of debentures for the Public Stock Debentures was not transferred to the Corporation as part of the devolution of social housing under the Social Housing Reform Act, 2000 (the “Act”). In accordance with the Act, the Province of Ontario (the “Province”) makes all payments on debentures related to properties transferred to the Corporation by the Act and recovers the outlay by reducing federal subsidy payment cash flows. The debentures bear interest ranging from 3.90% to 5.83%.

Principal repayments on long-term debt for the Non-profit Housing Provider stock over the next five years are set out below.

	\$
2017	601,701
2018	613,735
2019	638,529
2020	667,029
2021	698,624
Thereafter	1,004,403
	<hr/> 4,224,021

5. Related party transactions and balances

The City is the sole shareholder of the Corporation. The balance owed to the City is disclosed separately on the statement of financial position. The following table summarizes the Corporation’s transactions with related parties in the year:

	2016	2015
	\$	\$
Expenses		
Wages and benefits cost allocation for use of employees of the City of Kawartha Lakes	1,262,056	1,320,135
Property taxes to City of Kawartha Lakes	944,691	917,467

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm’s length equivalent value.

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

6. Investments

	2016	2015
	\$	\$
Unrestricted	3,988,837	2,014,305
Restricted		
Invested with Social Housing Services Corp Financial Inc. Canadian short-term bond fund series A	-	1,613,599
	3,988,837	3,627,904

7. Funding

The funding provided to the Corporation is administered by the City. Some funds originate at the Federal level and are flowed through to the City via the Province for programs covered by the social housing agreement. Federal and Provincial funding that has been earmarked for the Corporation specifically has been reported as grant revenue from the original government level.

Any operating expenditures in excess of government funding are funded by the City (91%) and the County of Haliburton (9%). Capital expenditures after application of federal and provincial grants are funded by the municipality in which the housing unit is located. Municipal funding is administered by the City as service manager for the area.

8. Financial Instruments

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

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

as at December 31, 2016

9. Expenses by object

	2016	2015
	\$	\$
Administrative salaries	652,057	584,553
Landlord Payments	-	60,833
Amortization	1,697,291	1,161,988
Bad debts	18,728	58,061
Insurance	212,500	229,168
Maintenance		
Labour	609,999	735,852
Building and general	266,935	252,580
Heating, Plumbing and electrical	141,185	128,787
Other	29,471	38,364
Fleet charge	47,944	18,278
Mortgage interest	206,974	235,446
Municipal taxes	944,691	917,467
Other	9,255	450
Supplies	52,760	53,603
Utilities	1,859,804	1,796,429
Minor capital	303,955	498,734
	7,053,549	6,770,323

10. Accumulated surplus

Accumulated surplus consists of the following:

	2016	2015
	\$	\$
Share capital	1	1
Operating surplus	528,504	129,242
Capital surplus	(292,022)	(185,593)
Accrued interest on long term debt	(13,370)	(17,056)
Long term debt	(4,224,021)	(4,808,824)
Reserve and reserve funds	2,112,910	2,200,667
Tangible capital assets	32,356,593	33,021,175
	30,468,595	30,339,612

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position
as at December 31, 2016

10. Accumulated surplus (continued)

The Corporation may only issue common shares which are only allowed to be acquired by a related service manager or a related municipality. The Minister of Municipal Affairs and Housing must give written consent for the issuance of shares to any other party. Upon insurance or transfer of the common shares, the service manager (City) must maintain a majority ownership of the issued share.

The Corporation cannot declare or pay dividends on any issued shares.

11. Contingencies and commitments

Various legal actions and claims have been initiated against the Corporation, some of which cannot be quantified. No provision has been made for any uninsured claims. It is management's opinion there will be no material uninsured liability arising from these claims. An expense will be recorded in the fiscal period in which a settlement becomes likely and measurable.

Commitment – water and sewer operating agreements

The Corporation is committed to two agreements with the Ontario Clean Water Agency to operate the water systems for Omemee and Haliburton housing properties. In addition to fixed annual charges adjusted for inflation, the Corporation must pay for capital upgrades and unusual maintenance necessary to meet legislative requirements.

Commitment – elevator agreement

The Corporation is committed to an agreement with ThyssenKrupp Elevator (Canada) Ltd. to provide maintenance and inspection work for all elevator systems. The agreement is for a five-year period from October 1, 2012 to May 31, 2017 for a total cost of \$115,260. The contract includes an option to extend for an additional term of one year.

Commitment – water tank agreement

The Corporation is committed to an agreement with Vista Credit to provide hot water tank replacement and maintenance service for a total cost of \$281,431 for a ten-year term ending in 2026.

Commitment – capital projects

The Corporation has committed to many capital projects expected to be completed over several years. As at December 31, 2016, the Corporation has awarded contracts in the amount of \$2,458,223 (2015 - \$493,098) and has recorded \$1,577,807 (2015 – \$453,322) of those awarded amounts. Therefore, the remaining contractual commitments will be recorded in future years as the projects are completed.

Funding for the completion costs is expected to include the use of capital surplus carried forward, grants, City and County of Haliburton funding and use of funds from reserves.

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

as at December 31, 2016

	Budget \$	2016 Actual \$	2015 Actual \$
Revenue			
Federal subsidy	56,083	213,079	31,814
Provincial subsidy	-	204,359	259,327
Municipal contributions			
Kawartha Lakes – general subsidy	3,468,847	3,468,847	3,471,205
Haliburton	108,630	196,103	216,889
Rental revenue	3,288,228	3,186,506	3,086,929
Fee revenue	96,012	82,767	90,939
Property management revenue	4,891	4,891	4,891
Donations and other	22,609	88,475	34,813
Interest revenue	38,000	27,000	57,851
Gain (loss) on disposal of tangible capital assets	-	1,229,237	2,676,854
	7,083,300	8,701,264	9,931,512
Expenses			
Operating			
Administrative salaries	613,861	652,057	821,246
Amortization	-	1,697,291	1,161,988
Audit fees	8,460	10,481	4,191
Bad debts	36,091	18,728	58,061
Landlord payments	-	-	60,833
Legal fees	1,500	2,855	3,733
Insurance	220,000	212,500	229,168
Maintenance			
Labour	612,460	609,999	498,889
Building and general	248,174	266,935	252,580
Heating, plumbing and electrical	121,560	141,185	128,787
Other	11,369	12,064	15,723
Grounds maintenance	68,148	17,407	22,641
Fleet charge	25,000	47,944	18,278
Municipal taxes	952,044	944,691	917,467
Mortgage interest	275,269	206,974	235,446
Other	2,639	2,106	18,375
Staff and board expenses	6,200	7,149	7,936
Supplies and services	20,000	39,424	19,818
Utilities	2,134,909	1,859,804	1,796,429
Minor capital	-	303,955	498,734
	5,357,684	7,053,549	6,770,323
Excess of revenue over expenses	1,725,616	1,647,715	3,161,189