

DRAFT #2
May 6, 2020

INDEPENDENT AUDITORS' REPORT

Financial Statements of

HOUSING YORK INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Housing York Inc.

Opinion

We have audited the financial statements of Housing York Inc. (the Entity), which comprise:

- the balance sheet as at December 31, 2019
- the statement of revenue and expenditures for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 80(2) of the Housing Services Act, 2011 and guidance in its application issued by the Housing Branch of the Regional Municipality of York.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Financial Reporting Framework

We draw attention to Note 1 in the financial statements, which describes the applicable financial reporting framework and the purpose of the financial statements.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section 80(2) of the Housing Services Act, 2011 and guidance in its application issued by the Housing Branch of the Regional Municipality of York, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

HOUSING YORK INC.

DRAFT Balance Sheet

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,759,085	\$ 3,653,048
Accounts receivable:		
Rents	340,318	243,977
Harmonized sales tax	290,094	525,326
Other	83,963	62,639
Prepaid expenses	588,608	535,190
	4,062,068	5,020,180
Restricted cash and investments:		
Rental deposits	852,486	834,566
Reserve fund deposits	—	7,565,974
Insurance Reserve	180,000	180,000
Operations Reserve	500,000	500,000
Strategic Initiatives Reserve	2,791,583	1,903,382
Emergency Housing Reserve	3,217,643	2,342,633
Working Capital Reserve	3,500,000	3,500,000
Capital Reserve	8,943,550	—
Reserve fund investments (note 5)	—	3,234,386
Operating fund investments	2,065,504	—
	22,050,766	20,060,941
Property holdings (note 2)	219,227,939	184,419,250
Furniture and fixtures	2,290,551	2,103,977
	\$ 247,631,324	\$ 211,604,348

	2019	2018
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,743,818	\$ 4,620,652
Deferred revenue	1,407,560	1,396,767
Amounts due to Regional Municipality of York, without interest or terms of repayment	1,382,319	853,414
Current portion of mortgages payable (note 3)	11,152,907	5,559,174
	17,686,604	12,430,007
Building financing:		
Loan agreements (note 3)	16,341,622	5,834,000
Mortgages payable (note 3)	34,495,395	45,648,302
	50,837,017	51,482,302
Shareholder's equity (note 4):		
Reserve for Capital Repair and Replacement	8,943,550	9,337,912
Reserve for Insurance	180,000	180,000
Reserve for Operations	500,000	500,000
Reserve for Strategic Initiatives	2,791,583	1,903,382
Reserve for Emergency Housing	3,217,643	2,342,633
Reserve for Working Capital	3,500,000	3,500,000
Shareholder's equity	159,974,927	129,928,112
	179,107,103	147,692,039
	\$ 247,631,324	\$ 211,604,348

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

HOUSING YORK INC.

DRAFT Statement of Revenue and Expenditures

Year ended December 31, 2019, with comparative figures for 2018

	2019 Budget	2019 Actual	2018 Actual
Revenue:			
Rental	\$ 21,041,417	\$ 21,149,590	\$ 20,607,652
Non-rental	1,191,530	1,446,582	1,261,805
Government subsidies (note 6)	17,717,567	18,877,027	18,077,951
	39,950,514	41,473,199	39,947,408
Expenditures:			
Mortgage payments (note 3)	9,023,592	8,813,237	9,397,046
Administration and maintenance	13,533,933	13,534,506	12,430,862
Property taxes	3,515,786	3,181,559	2,723,683
Utilities	3,964,715	3,524,105	3,512,834
Insurance	543,089	513,640	459,090
Bad debts	124,632	16,449	30,282
Contribution to Capital Reserve (note 4)	7,848,148	8,648,177	7,674,941
Contribution to Insurance Reserve (note 4)	—	—	25,000
Contribution to Emergency Housing Reserve (note 4)	915,000	1,278,373	1,114,433
	39,468,895	39,510,046	37,368,171
Excess of revenue over expenditures before the undernoted	481,619	1,963,153	2,579,237
Transfer to Reserves:			
Capital Reserve (note 4)	240,809	985,670	1,287,884
Emergency Housing Reserve (note 4)	—	74,865	3,472
Insurance Reserve (note 4)	—	14,417	138,006
Strategic Initiatives Reserve (note 4)	240,810	888,201	1,149,875
	481,619	1,963,153	2,579,237
Excess of revenue over expenditures	\$ —	\$ —	\$ —

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Statement of Cash Flows

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenditures	\$ —	\$ —
Amortization of income-producing properties which does not involve cash	5,559,174	5,945,084
Loan agreement payments which do not involve cash	1,972,378	—
Cash contributions to/from reserves	1,368,849	3,620,078
Change in non-cash operating working capital:		
Accounts receivable	117,567	(121,612)
Prepaid expenses	(53,418)	(78,540)
Accounts payable and accrued liabilities	(876,834)	610,407
Deferred revenue	10,793	76,139
Amounts due to Regional Municipality of York	528,905	2,260,994
	8,627,414	12,312,550
Financing activities:		
Mortgage principal repayment	(5,559,174)	(5,945,084)
Loan agreement principal repayment	(1,972,378)	—
	(7,531,552)	(5,945,084)
Investing activities:		
Restricted cash and investments:		
Rental deposits	(17,920)	(28,175)
Reserve fund deposits	7,565,974	(2,343,128)
Reserve fund investments	3,234,386	(56,792)
Strategic Initiatives Reserve	(888,201)	(1,149,875)
Emergency Housing Reserve	(875,010)	(696,728)
Capital Reserve	(8,943,550)	—
Operating fund investments	(2,065,504)	—
	(1,989,825)	(4,274,698)
Increase (decrease) in cash	(893,963)	2,092,768
Cash, beginning of year	3,653,048	1,560,280
Cash, end of year	\$ 2,759,085	\$ 3,653,048
Supplemental cash flow information:		
Property holdings received by donation	\$ 33,924,437	\$ —
Property loan agreements assumed	12,480,000	—

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Notes to Financial Statements

Year ended December 31, 2019

Housing York Inc. (the "Corporation") was incorporated in accordance with Section 182 of the Ontario Business Corporations Act on January 1, 2003. The Regional Municipality of York (the "Region") is the sole shareholder of the Corporation.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared in accordance with accounting policies that comply with Section 80(2) of the Housing Services Act, 2011 (the "Act") and guidance in its application issued by the Housing Branch of the Region. Canadian generally accepted accounting principles ("Canadian GAAP") has been interpreted to mean Canadian public sector accounting standards and the 4200 standards for government not-for-profit organizations.

The basis of accounting used in these financial statements materially differs from Canadian GAAP because:

(i) Amortization:

Beginning in 2012, amortization is not provided on property holdings and furniture and fixtures over the estimated useful lives of these assets. This currently includes Tom Taylor Place, Leeder Place Family Shelter, Kingview Court Expansion, Mackenzie Green, Lakeside Residences, Sutton Youth Services, Richmond Hill Hub and 275 Woodbridge Avenue.

Amortization is not provided on Provincial Reform Program property holdings over the estimated useful lives of these assets but rather at a rate equal to the annual principal repayments on these mortgages.

(ii) Income-producing properties:

Income-producing properties that were transferred to the Public Housing Program on December 14, 2000 by the Province of Ontario are carried at a nominal value of \$1 as the fair value of the properties was not readily available at the time of the transfer.

Income-producing properties that are reported for the Provincial Reform Program include land, buildings, equipment and other capitalized costs and are recorded at cost, net of any government grants or contributions.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

As described in the Act, costs incurred by the Provincial Reform Program to modernize or improve existing income-producing properties, which have the effect of extending the useful life of the property or increasing its value, are funded from the Capital Repair and Replacement Reserve. In 2018, a Capital Repair and Replacement Reserve was established for the Public Housing Program. The Regional Housing Program is expected to be self-sustaining and funds its own Capital Repair and Replacement Reserve through surplus operating funds.

During 2004, the Region implemented the Regional Housing Program which the Corporation manages on behalf of the shareholder. A long-term lease agreement was created for each leased property. The land, building and equipment for the leased sites are not reflected in the Corporation's book of accounts.

Property	Addition year	Ownership type
Armitage Garden	2004	Leased
Blue Willow	2006	Leased
Tom Taylor Place	2008	Owned
Kingview Court Expansion	2011	Owned
Mapleglen Residences	2012	Leased
Mackenzie Green	2013	Owned
Lakeside Residences	2014	Owned
Belinda's Place Women Shelter	2015	Leased
Richmond Hill Hub	2016	Owned
Sutton Youth Services	2017	Owned
275 Woodbridge Avenue	2019	Owned

The sites owned by the Corporation are recorded on the books at transfer costs between the shareholder and the Corporation.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(iii) Other property holdings:

- (a) The Corporation owns the Blue Door Shelters site, a non-revenue-producing property location with multiple buildings that serve as emergency shelters.
- (b) In 2009, the Corporation added a new family shelter building known as Leeder Place Family Shelter to the Blue Door Shelters site. The old Leeder Place Family Shelter has been closed and its disposition is under review.
- (c) In 2015, the Corporation added a new women's shelter building known as Belinda's Place Women Shelter. The building is owned by the Region and the land is leased by the Corporation from the Town of Newmarket. The facility is operated by the Salvation Army. Social Services provide funding for the administration and maintenance costs.
- (d) In 2016, the Corporation added a new building known as the Richmond Hill Hub. The building features 202 mixed units and a youth shelter. The building is owned by the Corporation and 360 Kids operates the youth shelter. Social Services provide funding for the administration and maintenance costs of the youth shelter.
- (e) In 2017, the Corporation added a new youth shelter known as Sutton Youth Services. The building is owned by the Corporation and operated by the Salvation Army. Social Services provide funding for the administration and maintenance costs.

(iv) Appropriations to/from Capital Repair and Replacement Reserve fund:

Appropriations to/from the Capital Repair and Replacement Reserve fund are reported on the statement of revenue and expenditures. Expenditures made from Capital Repair and Replacement Reserve fund are reported within this fund and not on the statement of revenue and expenditures. Interest income earned on investments of Capital Repair and Replacement Reserve fund is credited directly to the Capital Repair and Replacement Reserve fund and is not reported on the statement of revenue and expenditures. In 2019, the capital investment and bank account were closed. Interest income earned on investments is now allocated and reported as a transfer to reserve on the statement of revenue and expenditures.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(v) Financial instruments:

Financial instruments are recorded at fair value on initial recognition.

Under Program Instruction 2008-02 issued by the Region, the Corporation subsequently records its investments at book value. Gains or losses associated with capital reserve investments are recognized at redemption.

Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs.

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 revenue and expenditures.

Long-term debt is recorded at cost.

(b) Other reserve funds:

In 2017, the Corporation established a reserve fund strategy and operating surplus policy. These funds are specifically restricted for working capital, strategic initiatives and operations. These are discussed further in note 4.

(c) Bad debts:

The funding formula does not recognize a provision for doubtful accounts. Therefore, bad debts are recognized as an expense in the year that write-off has occurred. The Corporation applies a collection of tenant accounts policy, which indicates that former tenant arrears that meet certain criteria are eligible for write-off annually.

(d) Operations:

As at December 31, 2019, the portfolio consists of 36 multi-residential buildings, five emergency shelter sites, and five condominium units. Daily operations of the shelter sites are provided by Blue Door Shelter, Salvation Army and 360 Kids through an operating agreement.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(e) Subsidy reconciliation - operating subsidies:

The Corporation is subsidized for certain occupancy costs relating to Provincial Reform Program and Public Housing Program properties administered by the Corporation. In 2019, any surplus funding will be allocated to reserves according to the operating surplus strategy. The Regional Housing Program is not eligible to receive operating subsidy.

The final subsidy amount to be received by the Corporation for the current fiscal year will not be determined until the Service Manager reviews the Corporation's financial and statistical returns. Corporation's management considers the subsidy receivable (payable) to include all appropriate adjustments for non-allowable costs. Any adjustments to the subsidy will be accounted for in the year it is determined.

(f) Furniture and fixtures:

Furniture and fixtures are recorded at cost.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the year. Significant items subject to such estimates and assumptions include the carrying amount of property holdings. Actual results could differ from those estimates.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Property holdings:

	2019	2018
Incoming-producing properties:		
Land	\$ 25,232,345	\$ 25,232,345
Buildings	96,232,555	96,232,555
	121,464,900	121,464,900
Less accumulated amortization	75,816,601	70,257,424
Net book value	\$ 45,648,299	\$ 51,207,476
Other properties:		
Land	\$ 16,547,935	\$ 15,650,135
Buildings	157,791,697	118,321,631
	174,339,632	133,971,766
Less accumulated amortization	759,992	759,992
Net book value	\$ 173,579,640	\$ 133,211,774
Total property holdings:		
Land	\$ 41,780,280	\$ 40,882,480
Buildings	254,024,252	214,554,186
	295,804,532	255,436,666
Less accumulated amortization	76,576,593	71,017,416
Net book value	\$ 219,227,939	\$ 184,419,250

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Mortgages payable:

(a) Mortgages payable applicable to buildings in the Provincial Reform Program:

Property	Particulars	2019	2018
Glenwood Mews	Mortgage payable, bearing interest at 1.73% per annum with blended monthly payments of \$33,908, maturing November 1, 2024	\$ 1,917,745	\$ 2,295,106
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of \$70,011, maturing January 1, 2025	4,654,351	5,154,623
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of \$87,877, maturing January 1, 2024	6,040,985	6,721,011
Mulock Village	Mortgage payable, bearing interest at 2.105% per annum with blended monthly payments of \$71,887, maturing March 1, 2022	5,797,479	6,530,268
Heritage East	Mortgage payable, bearing interest at 1.850% per annum with blended monthly payments of \$73,639, maturing October 1, 2020	6,185,478	6,947,528
Hadley Grange	Mortgage payable, bearing interest at 3.124% per annum with blended monthly payments of \$40,646, maturing February 1, 2028	3,514,527	3,886,899
Brayfield Manor	Mortgage payable, bearing interest at 5.940% per annum with blended monthly payments of \$70,757, maturing July 1, 2028	5,719,845	6,217,372
Oxford Village	Mortgage payable, bearing interest at 1.830% per annum with blended monthly payments of \$14,781, maturing June 1, 2025	1,657,236	1,802,957
Rose Town	Mortgage payable, bearing interest at 1.880% per annum with blended monthly payments of \$39,771, maturing December 1, 2022	1,391,169	1,837,830
Trinity Square	Mortgage payable, bearing interest at 2.315% per annum with blended monthly payments of \$68,160, maturing March 1, 2025	5,456,314	6,139,963
Thornhill Green	Mortgage payable, bearing interest at 2.540% per annum with blended monthly payments of \$37,451, maturity December 1, 2022	3,313,173	3,673,919
		45,648,302	51,207,476
Less current portion		11,152,907	5,559,174
		\$ 34,495,395	\$ 45,648,302

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Mortgages payable (continued):

Principal repayments are as follows:

2020	\$ 11,152,907
2021	5,151,235
2022	8,849,541
2023	6,045,271
2024	5,991,051
Thereafter	8,458,297
	\$ 45,648,302

(b) Tom Taylor Place:

Tom Taylor Place, a 50-unit facility in the Town of Newmarket, opened on October 1, 2008. The building was constructed by the Region through the New Affordable Housing Program, which offers funding partnerships with the federal and provincial governments. The building is owned by the Corporation; however, the financial reporting does not fall under the Act like the other income-producing properties owned by the Corporation.

The Corporation purchased the land for this building in January 2006 for \$315,000. Financing for the building was structured in 2009, which includes Regional debentures and other loan agreements which are described below:

Amounts payable to shareholder (i)	\$ 4,434,000
Less payments to shareholder	(1,234,602)
Federal forgivable loan (ii)	1,400,000
	4,599,398
Shareholder contribution (iii)	3,720,635
Additional shareholder contribution (iv)	1,234,602
	\$ 9,554,635

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Mortgages payable (continued):

- (i) The amount payable to the shareholder is made up of two components:

A long-term loan in the amount of \$2,334,000 is repayable to the Region from rent revenue generated at the building. The Region has debentured this amount on the Corporation's behalf. Repayment terms are based on a 30-year amortization schedule. Principal payments of \$430,029 have been made to the shareholder.

The remaining amount payable to shareholder is \$2,100,000 for a second debenture financed by the Region. Under the New Affordable Housing Program, the province flows funds to the Corporation which, in turn, forwards the funds to the Region to pay the debenture. These provincial contributions are forgivable advances subjected to similar terms and conditions applicable to federal forgivable loan as discussed below. The term of the Regional debenture is 20 years. Principal payments of \$804,573 have been made to the shareholder.

- (ii) The federal forgivable loan of \$1,400,000 is provided through the Canada-Ontario New Affordable Housing Program agreement. This loan is to be fully forgiven on the last day of the month at the end of the term of the loan. The term of the loan is 20 years maturing in 2028 and the amounts are forgiven provided all terms and conditions of the agreement are satisfied by the Corporation. The loan is interest-bearing with the interest rate, being the higher of the average posted rate offered by major Canadian lending institutions for a commercial first mortgage having a five-year term, plus 2% or the interest rate applicable to the first mortgage registered against title to the property, plus 2%. The interest, however, is to be fully forgiven on an annual basis provided all terms and conditions of the agreement are satisfied by the Corporation.

- (iii) The shareholder contribution in the amount of \$3,720,635 represents a gift from the Region to the Corporation to fully finance the cost of the Tom Taylor Place not covered by the Canada-Ontario New Affordable Housing Program.

- (iv) The additional shareholder contribution in the amount of \$1,234,602 represents the debenture payments to the shareholder.

- (c) Blue Door Shelters - Leeder Place Family Shelter:

The new Leeder Place Family Shelter, with a construction cost valued at \$2,836,826, was developed by the Region on existing lands owned by the Corporation. It was gifted to the Corporation without any financing obligations.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Mortgages payable (continued):

(d) Kingview Court Expansion:

Kingview Court Expansion, a 39-unit facility in the Town of King, opened on October 26, 2011. The building was constructed through the New Affordable Housing Program, which offers funding partnerships with the federal and provincial governments by the Region with a cost of \$7,847,469, including \$98,644 in furniture and fixtures. The building is owned by the Corporation and it was gifted without any financing obligations. The financial reporting does not fall under the Act like the other income-producing properties owned by the Corporation.

(e) Mackenzie Green:

Mackenzie Green, a 140-unit facility in the Town of Richmond Hill, opened on March 15, 2013. The building was constructed with funding provided through: Canada-Ontario Affordable Housing Program 2009 Extension \$16,800,000; York Region Investing in Ontario Funding \$11,011,000; Developing Opportunities for Ontario Renters Funding \$2,409,000; and Social Housing Development Charges Reserve \$1,350,871. The building is owned by the Corporation and it was gifted with a \$5,850,000 financial obligation serviced through tenants rent. The Region has debentured this amount on the Corporation's behalf. Repayment terms are based on a 30-year amortization schedule. Principal payments of \$737,776 have been made to the shareholder.

The financial reporting is similar to the other properties not covered by the Act. In 2019, a one-time adjustment of \$5,112,224 was recorded to recognize the outstanding financial obligation.

(f) Lakeside Residences:

Lakeside Residences, a 97-unit facility in the Town of Georgina, was purchased on June 15, 2014. The building was constructed with funding provided through: Investment in Affordable Housing for Ontario Program \$12,489,748; York Region Investing in Ontario Funding; \$5,788,386; York Region Social Housing Development Reserve \$1,178,795 and the Sundry Revenue account \$17,393. The building is owned by the Corporation and it was gifted with no financial obligation. The financial reporting is similar to the other properties not covered by the Act.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Mortgages payable (continued):

(g) Belinda's Place Women Shelter:

Belinda's Place Women Shelter is a women's shelter that was built by the Region on land leased from the Town of Newmarket. This building is owned by the Region and the land is leased by the Corporation. A third party provider operates the facility through an operating agreement. This building features 28 emergency beds and nine transitional units.

(h) Richmond Hill Hub:

Richmond Hill Hub, a 202-unit facility in the Town of Richmond Hill, opened on January 28, 2016. The building is owned by the Corporation and it was gifted without any financing obligations. It features a youth shelter which is operated by a third party provider.

(i) Sutton Youth Services:

Sutton Youth Services is an emergency youth shelter. Ownership was transferred by the Region in 2017 and is operated by a third party provider through an operating agreement. This building features 16 long term beds and 10 short term beds.

(j) 275 Woodbridge Avenue:

275 Woodbridge Avenue, a 162 unit facility in the City of Vaughan, opened December 8, 2019. The building was constructed with funding provided through: Federal and Provincial funding \$13,683,000, Regional Reserves \$23,939,000 and Region debentures \$6,630,000. The building is owned by the Corporation. Repayment terms are based on a 10 year term, with the option to refinance for an additional 10 years. The financial reporting is similar to the other properties not covered by the Act.

4. Reserve funds:

In addition to the Capital Reserve fund that has always been maintained by the Corporation, the Board of Directors and the Region have approved additional reserves for specified purposes.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Reserve funds (continued):

(a) Capital Repair and Replacement Reserve fund:

In accordance with the Act, the use of the Capital Repair and Replacement Reserve fund is limited to the replacement, enhancement or repair of existing capital assets, or the purchase of new capital assets for the Provincial Reform Program. Funding for capital expenditures is obtained through the Region, through the subsidy payment process, and through an annual operating surplus sharing agreement.

In 2018, the Corporation implemented a fiscal and operating surplus strategy. The fiscal strategy establishes a consolidated capital reserve to be shared by all three programs. In addition, 50% of the year-end surplus will be allocated to the Capital Repair and Replacement Reserve fund.

In 2019, the capital investment and bank account were closed. Interest income earned on investments is now allocated and reported as a transfer to reserve from operations. Interest of \$61,638 is included in the transfer to reserve from operations.

The Corporation has a 10-year capital plan for managing expenses from capital reserves, which has been approved through a separate process.

	2019	2018
Balance, beginning of year	\$ 9,337,912	\$ 7,564,437
Contribution to reserve:		
Operating	5,048,177	2,174,941
Region	3,600,000	5,500,000
	8,648,177	7,674,941
Transfer to reserve from operations	985,670	1,287,884
Interest earned	148,604	133,752
Capital expenditures	(10,176,813)	(7,323,102)
Net activity	(394,362)	1,773,475
Balance, end of year	\$ 8,943,550	\$ 9,337,912

(b) Insurance Reserve:

The Corporation maintains property insurance on all buildings through the Social Housing Services Corporation. This is a pooled insurance program available for housing providers in Ontario.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Reserve funds (continued):

The Corporation takes all reasonable measures to mitigate insurance claims through aggressive risk management strategies. However, the unpredictable nature of insurance claims has the potential to create unforeseen impacts on operating expenses on a year-over-year basis as frequency and severity of incidents cannot be forecasted.

As an alternative to using operating funds on an as-required basis for insurance-related costs, the Board of Directors approved the establishment of a reserve fund to facilitate a more predictable draw on operating expenses.

Insurance costs related to deductibles on claims and small settlements will be paid from the Insurance Reserve fund. The combination of the insurance policy and the Insurance Reserve fund provides financial protection from catastrophic loss.

	2019	2018
Balance, beginning of year	\$ 180,000	\$ 180,000
Contribution to reserve	—	25,000
Transfer to reserve from operations	14,417	138,006
Claims paid, net of recoveries	(14,417)	(163,006)
Net activity	—	—
Balance, end of year	\$ 180,000	\$ 180,000

(c) Operations Reserve:

Management established a Contingency Fund for maintenance costs for three properties: Mackenzie Green, Lakeside Residences and Richmond Hill Hub. In 2017, the Corporation adopted a new reserve strategy and operating surplus policy. The Operations reserve has now been expanded to ensure funding is available for unplanned expenditures and revenue shortfalls for all properties. Prior year shelter surplus contributions were transferred to the Emergency Housing Reserve as part of this strategy. The Operations reserve is funded through annual allocations from the operating surplus to a limit of \$500,000.

	2019	2018
Balance, beginning and end of year	\$ 500,000	\$ 500,000

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Reserve funds (continued):

(d) Strategic Initiatives Reserve:

Management established a Strategic Initiatives Reserve to fund strategic priorities for the Corporation. The reserve will be funded through annual allocations from the operating surplus to a limit of \$3,500,000.

	2019	2018
Balance, beginning of year	\$ 1,903,382	\$ 753,507
Transfer to reserve from operations	888,201	1,149,875
Balance, end of year	\$ 2,791,583	\$ 1,903,382

(e) Emergency Housing Reserve:

In 2015, management established a furniture replacement fund specifically designated for furniture enhancements at the various emergency and transitional housing facilities owned by the Corporation and operated by Social Services. In 2017, the reserve was renamed the Emergency Housing Reserve and has expanded to include capital repairs and operating expenditures for all emergency housing facilities.

	2019	2018
Balance, beginning of year	\$ 2,342,633	\$ 1,645,905
Contribution to reserve	1,278,373	1,114,433
Transfer to reserve from operations	74,865	3,472
Direct costs	(478,228)	(421,177)
Net activity	875,010	696,728
Balance, end of year	\$ 3,217,643	\$ 2,342,633

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Reserve funds (continued):

(f) Working Capital Reserve:

In 2017, management established a working capital reserve to ensure funds are available to facilitate timely payment of invoices. The reserve will be funded through annual allocations from operating surpluses to a limit of \$3,500,000.

	2019	2018
Balance, beginning and end of year	\$ 3,500,000	\$ 3,500,000

(g) Shareholder's equity:

Tom Taylor Place, a 50-unit facility in the Town of Newmarket was gifted to the Corporation with \$5,834,000 in loan agreements. The debenture payments to date of \$1,234,602, represents an increase in the shareholder's equity.

Mackenzie Green was constructed by the Region and was gifted to the Corporation with a \$5,850,000 financing obligation serviced through tenants' rent. As amortization is not provided on Mackenzie Green, the contribution of Mackenzie Green was recognized as a direct increase in shareholder's equity in the amount of \$37,420,871. In 2019, a one-time reduction of \$5,850,000 was made to recognize the original financial obligation. Principal repayments to date of \$737,776 represent an increase in shareholder's equity.

Lakeside Residences was constructed by the Region and was gifted to the Corporation. As amortization is not provided on Lakeside Residences, the contribution of Lakeside Residences is recognized as a direct increase in the shareholder's equity in the amount of \$19,405,805.

Richmond Hill Hub was constructed by the Region and was gifted to the Corporation. As amortization is not provided on Richmond Hill Hub, the contribution of Richmond Hill Hub is recognized as a direct increase in the shareholder's equity in the amount of \$57,323,809.

Sutton Youth Services is recognized as a direct increase in shareholder's equity in the amount of \$1,372,697.

275 Woodbridge Avenue was constructed by the Region and was gifted to the Corporation. As amortization is not provided on 275 Woodbridge Avenue, the contribution is recognized as a direct increase in the shareholder's equity in the amount of \$33,924,437.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Reserve funds (continued):

	2019	2018
Balance, beginning of year	\$ 129,928,112	\$ 129,928,112
Shareholder contribution from building transfers	33,924,437	—
Shareholder contribution from principal repayments	1,972,378	—
Financial obligation adjustment	(5,850,000)	—
Balance, end of year	\$ 159,974,927	\$ 129,928,112

5. Restricted investments:

During 2005, the Corporation adopted an Investment Strategy Policy, which includes the management of mandatory investment of the Capital Repair and Replacement Reserve fund, as well as the investment of surplus operating funds. The policy prescribes to a conservative investment approach that carries a low to moderate risk tolerance similar to investment strategies adopted by the Region.

(a) Reserve fund investments:

Under the requirements of the Act, housing providers are required to invest their Capital Repair and Replacement Reserve fund in an investment pool designed for housing providers. The Corporation has participated in this mandatory program since its inception and, from time to time, adjusts its investment mix to reflect its risk profile and to improve its overall returns.

During 2019, the Corporation liquidated its reserve fund investments. The Provincial Reform reserves were depleted and the Corporation was no longer obligated to invest in this program.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

5. Restricted investments (continued):

Reserve fund investments comprise the following:

	2019	2018
Security description:		
Social Housing Canadian Short Term Bond Fund	\$ —	\$ 3,223,523
Social Housing Canadian Bond Fund	—	3,673
Social Housing Canadian Equity Fund	—	7,190
Total reserve fund investments	\$ —	\$ 3,234,386

6. Related party transactions:

(a) During the year, the Corporation received net subsidies as summarized below:

	2019	2018
Subsidies:		
Provincial Reform Program	\$ 6,358,536	\$ 6,616,564
Public Housing Program	3,319,485	3,238,521
Blue Door Shelters	—	81,824
Other	9,507,236	8,492,594
	19,185,257	18,429,503
Less surplus subsidy payable to System Service Manager	308,230	351,552
	\$ 18,877,027	\$ 18,077,951

The Region provided contracted services of personnel, rental of office space and other administrative costs. The cost of these services, aggregating \$8,019,571 (2018 - \$7,581,579), was charged to administration and maintenance.

(b) Buildings in the Regional Housing Program are financed by the Region. The collection of tenants' rent is used to pay the financing costs and the Corporation issued payments to the Region to fund the debentures payable. The payments issued for Armitage Garden, Blue Willow Terrace, Tom Taylor Place, Mapleglen Residences and Mackenzie Green amounted to \$1,527,922 (2018 - \$1,524,455).

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2019

7. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations, resulting in a financial loss. The Corporation is exposed to credit risk with respect to the accounts receivable and cash.

The Corporation assesses, on a continuous basis, accounts receivable and writes off any amounts that are not considered to be collectible during the year. The maximum exposure to credit risk of the Corporation at December 31, 2019 is the carrying value of these assets.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements. The Corporation prepares a budget to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due immediately within receipt of an invoice.