

DRAFT #3
May 6, 2015

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Housing York Inc.

We have audited the accompanying financial statements of Housing York Inc., which comprise the balance sheet as at December 31, 2014, the statements of revenue, expenditures and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management 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 and Long Term Care Branch of the Regional Municipality of York.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and Long Term Care 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.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Housing York Inc. as at December 31, 2014, 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 and Long Term Care Branch of the Regional Municipality of York.

Basis of Accounting

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Housing York Inc. to meet the requirements of the Housing and Long Term Care Branch of the Regional Municipality of York. As a result, the financial statements may not be suitable for another purpose.

Restriction on Use

Our report is intended solely for Housing York Inc. and Housing and Long Term Care Branch of the Regional Municipality of York and should not be used by parties other than Housing York Inc. or the Housing and Long Term Care Branch of the Regional Municipality of York.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

HOUSING YORK INC.

DRAFT Balance Sheet

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	\$ 5,671,563	\$ 6,583,460
Accounts receivable:		
Rents	289,475	248,525
Harmonized sales tax	81,273	336,496
Other	95,246	401,736
Prepaid expenses	455,249	404,271
	<u>6,592,806</u>	<u>7,974,488</u>
Restricted cash and investments:		
Rental deposits	629,002	570,503
Reserve fund deposits	1,033,603	1,123,489
Emergency Power Plan Reserve	276,117	317,863
Insurance Reserve	180,000	180,000
Operation Reserve	23,700	-
Strategic Projects	-	10,217
Reserve fund investments (note 5)	3,026,717	2,966,698
Operating fund investments (note 5)	2,037,039	2,069,908
	<u>7,206,178</u>	<u>7,238,678</u>
Property holdings (note 2)	149,996,991	135,092,316
Furniture and fixtures	235,633	235,631
	<u>\$ 164,031,608</u>	<u>\$ 150,541,113</u>

2014

2013

Liabilities and Shareholder's Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 2,176,168	\$ 2,394,523
Deferred revenue	988,890	923,732
Amounts due to Regional Municipality of York, without interest or terms of repayment	1,702,304	3,571,857
Current portion of mortgages payable (note 3)	29,091,884	4,501,130
	<u>33,959,246</u>	<u>11,391,242</u>

Building financing:

Loan agreements (note 3)	5,834,000	5,834,000
Mortgages payable (note 3)	44,521,495	73,613,378
	<u>50,355,495</u>	<u>79,447,378</u>

Shareholder's equity (note 4):

Reserve fund for Capital Repair and Replacement	4,952,608	4,772,990
Reserve fund for Emergency Power Plan Project	276,117	317,863
Reserve fund for Insurance Reserve	180,000	180,000
Reserve for Operating Contingency	23,700	—
Reserve fund for Strategic Projects	—	10,217
Shareholder's equity	71,231,806	51,825,801
Retained earnings	3,052,836	2,595,622
	<u>79,716,867</u>	<u>59,702,493</u>

\$ 164,031,608 \$ 150,541,113

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

HOUSING YORK INC.

DRAFT Statement of Revenue, Expenditures and Retained Earnings

Year ended December 31, 2014, with comparative information for 2013

	2014 Budget	2014 Actual	2013 Actual
Revenue:			
Rental	\$ 18,883,539	\$ 18,899,997	\$ 17,676,160
Non-rental	717,937	786,376	644,873
Operating subsidies (note 6)	8,970,849	8,663,987	7,953,431
Operating surplus	572,420	457,214	667,369
	<u>29,144,745</u>	<u>28,807,574</u>	<u>26,941,833</u>
Expenditures:			
Mortgage payments (note 3)	9,453,596	9,437,377	9,211,125
Administration and maintenance	9,062,802	9,466,070	8,404,916
Property taxes	2,633,857	2,820,420	2,681,639
Utilities	3,650,604	2,864,464	2,542,310
Capital	1,400,561	1,304,261	1,125,957
Insurance	441,459	443,408	397,163
Shelter	85,670	105,120	176,999
Bad debts	96,013	52,950	58,098
	<u>26,824,562</u>	<u>26,494,070</u>	<u>24,598,207</u>
Excess of revenue over expenditures before the undernoted	2,320,183	2,313,504	2,343,626
Contribution to Capital Reserve (note 4)	1,713,063	1,782,441	—
Contribution to Operations Reserve (note 4)	9,700	23,700	1,640,022
Excess of revenue over expenditures	597,420	507,363	703,604
Retained earnings, beginning of year		2,595,622	1,032,469
Internal allocations:			
Contribution from Insurance Reserve (note 4)		(50,149)	(36,236)
Energy Management Program (note 4)		—	177,430
Energy Management Loan Repayment		—	690,000
Voyager Reserve		—	28,355
		<u>(50,149)</u>	<u>859,549</u>
Retained earnings, end of year		\$ 3,052,836	\$ 2,595,622

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenditures	\$ 507,363	\$ 703,604
Amortization of income-producing properties which does not involve cash	4,501,130	4,313,599
Cash contributions to/from reserves	101,206	(69,417)
Change in non-cash operating working capital:		
Accounts receivable	520,763	38,859
Prepaid expenses	(50,979)	(35,114)
Accounts payable and accrued liabilities	(218,355)	(85,958)
Deferred revenue	65,158	141,841
Amounts due to/from Regional Municipality of York	(1,869,553)	23,637
	<u>3,556,733</u>	<u>5,031,051</u>
Financing activities:		
Principal repayment of mortgages	(4,501,130)	(4,313,599)
Investing activities:		
Increase in restricted cash - rental deposits	(58,499)	(155,513)
Decrease in restricted cash - reserve fund deposits	89,886	189,540
Increase in restricted cash - reserve fund investments	(60,019)	(59,787)
Decrease in restricted cash - Energy Management Strategy Reserve	-	844,576
Decrease in restricted cash - Insurance Reserve	-	1,913
Decrease in restricted cash - Emergency Power Plan Reserve	41,746	208,449
Decrease in restricted cash - reserve fund for Voyager Upgrade Project	-	39,897
Decrease in restricted cash - reserve fund for Fairy Lake Pond	-	233,790
Increase in restricted cash - reserve fund for Operations Reserve	(23,700)	-
Decrease in restricted cash - Strategic Projects	10,217	14,224
Decrease in operating fund investments	32,869	32,869
	<u>32,500</u>	<u>1,349,958</u>
Increase (decrease) in cash	(911,897)	2,067,410
Cash, beginning of year	6,583,460	4,516,050
Cash, end of year	<u>\$ 5,671,563</u>	<u>\$ 6,583,460</u>
Supplemental cash flow information:		
Property holdings donated	\$ 19,405,805	\$ 37,420,871

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Notes to Financial Statements

Year ended December 31, 2014

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 and Long Term Care 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 and Lakeside Residences.

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 date of 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, 2014

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. The Public Housing Program has no Capital Repair and Replacement Reserve; therefore, these expenses are reflected as operating expenses. The Regional Housing Program is self-sustaining and funds its own Capital Repair and Replacement Reserve through surplus operating funds.

(iii) Other property holdings:

The Corporation owns a non-revenue-producing property location with multiple buildings that serve as emergency shelters. Porter Place, the men's shelter, receives subsidy under the Act and is, therefore, reported in the same manner as the Corporation's other Provincial Reform Program locations.

In 2009, the Corporation added a new family shelter building known as Leeder Place to the Blue Door Shelters site. The old Leeder Place family shelter has been closed and its disposition is under review.

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

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

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(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, expenditures and retained earnings. Expenditures made from Capital Repair and Replacement Reserve fund are reported within this fund and not on the statement of revenue, expenditures and retained earnings. 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, expenditures and retained earnings.

(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, expenditures and retained earnings.

Long-term debt is recorded at cost.

On January 1, 2012, the Corporation adopted Public Accounting Standards, PS 3450 - Financial Instruments ("PS 3450"), and PS 2601 - Foreign Currency Translation. The standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, including derivatives, are included on the balance sheet and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Corporation's accounting policy choices.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

The adoption of this standard resulted in no change to the financial statements as unrealized gains and losses are not material on an annual basis. Therefore, a statement of remeasurement gains and losses has not been included in these financial statements.

(b) Other reserve funds:

In 2006, the Corporation established reserve funds from retained earnings for expenditures approved by the Board of Directors. These funds are specifically restricted for energy management, emergency power plan and insurance deductible expenditures.

In 2010, two further temporary reserves were established. One was to accommodate additional subsidy funding and expenditures related to an information system upgrade. The other is to capture a multi-year environmental remediation effort at one of the Corporation's Public Housing Program sites. 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, 2014, the portfolio consists of 37 multi-residential buildings and an emergency shelter site. While the Corporation owns the shelter site, daily operations are provided by Blue Door Shelter through an operating agreement.

(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. Any surplus funding received must be repaid in full to the Region. The Regional Housing Program is not eligible to receive operating subsidy.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

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. Management of the Corporation 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.

2. Property holdings:

	2014	2013
Income-producing properties:		
Land	\$ 25,232,345	\$ 25,232,345
Buildings	96,232,555	96,232,555
	<u>121,464,900</u>	<u>121,464,900</u>
Less accumulated amortization	47,851,522	43,350,392
Net book value	\$ 73,613,378	\$ 78,114,508
Other properties:		
Land	\$ 8,439,742	\$ 7,188,947
Buildings	68,703,864	50,548,854
	<u>77,143,606</u>	<u>57,737,801</u>
Less accumulated amortization	759,993	759,993
Net book value	\$ 76,383,613	\$ 56,977,808

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

2. Property holdings (continued):

	2014	2013
Total property holdings:		
Land	\$ 33,672,087	\$ 32,421,292
Buildings	164,936,419	146,781,409
	198,608,506	179,202,701
Less accumulated amortization	48,611,515	44,110,385
Net book value	\$ 149,996,991	\$ 135,092,316

3. Mortgages payable:

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

Property	Particulars	2014	2013
Glenwood Mews	Mortgage payable, bearing interest at 4.540% per annum with blended monthly payments of \$39,167, maturing February 1, 2015	\$ 3,753,120	\$ 4,047,121
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of \$70,011, maturing January 1, 2025	6,844,633	7,199,354
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of \$87,877, maturing January 1, 2024	9,077,413	9,585,583
Mulock Village	Mortgage payable, bearing interest at 4.547% per annum with blended monthly payments of \$80,593, maturing March 1, 2017	9,094,934	9,639,026
Heritage East	Mortgage payable, bearing interest at 2.693% per annum with blended monthly payments of \$77,170, maturing October 1, 2015	9,828,110	10,481,441

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Mortgages payable (continued):

Property	Particulars	2014	2013
Hadley Grange	Mortgage payable, bearing interest at 4.486% per annum with blended monthly payments of \$43,297, maturing February 1, 2018	5,171,665	5,454,516
Brayfield Manor	Mortgage payable, bearing interest at 5.940% per annum with blended monthly payments of \$70,757, maturing July 1, 2028	7,940,245	8,311,533
Oxford Village	Mortgage payable, bearing interest at 4.390% per annum with blended monthly payments of \$17,571, maturing June 1, 2015	2,347,509	2,453,719
Rose Town	Mortgage payable, bearing interest at 1.880% per annum with blended monthly payments of \$39,771, maturing December 1, 2022	3,543,175	3,949,940
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of \$11,214, maturing April 1, 2015	1,463,301	1,527,510
Trinity Square	Mortgage payable, bearing interest at 4.609% per annum with blended monthly payments of \$77,391, maturing March 1, 2015	8,701,330	9,219,863
Thornhill Green	Mortgage payable, bearing interest at 2.112% per annum with blended monthly payments of \$36,679, maturity December 1, 2017	5,058,365	5,388,383
Blue Door Shelter - Porter Place	Mortgage payable, bearing interest at 4.443% per annum with blended monthly payments of \$8,609, maturing September 1, 2018	789,579	856,519
		73,613,379	78,114,508
Less current portion		29,091,884	4,501,130
		<u>\$ 44,521,495</u>	<u>\$ 73,613,378</u>

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Mortgages payable (continued):

Principal repayments are as follows:

2015	\$ 29,091,884
2016	3,139,026
2017	14,621,506
2018	6,830,127
2019	2,124,486
Thereafter	17,806,350
	<hr/>
	\$ 73,613,379

(b) Tom Taylor Place:

Tom Taylor Place, a 50-unit facility in the Town of Newmarket, opened 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
Federal forgivable loan (ii)	1,400,000
	<hr/>
	5,834,000
Shareholder contribution (iii)	3,720,635
	<hr/>
	\$ 9,554,635

(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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Mortgages payable (continued):

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 the federal forgivable loan as discussed below. The term of the Regional debenture is 20 years.

- (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.

(c) Blue Door Shelters - Leeder Place:

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.

(d) Kingview Court Expansion:

Kingview Court Expansion, a 39-unit facility in the Town of King, opened 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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Mortgages payable (continued):

(e) Mackenzie Green:

Mackenzie Green, a 140-unit facility in the Town of Richmond Hill, opened 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 financial reporting is similar to the other properties not covered by the Act.

(f) Lakeside Residences:

Lakeside Residences, a 97-unit facility in the Town of Georgina, 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.

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.

(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 from the Region, through the subsidy payment process and through an annual operating surplus sharing agreement.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Reserve funds (continued):

Buildings in the Regional Housing Program contribute a significant portion of annual surplus operating funds to a Capital Repair and Replacement Reserve fund for future major repairs and replacements within this program. For presentation purposes, all capital reserve funds are reported on a consolidated basis.

The Corporation does not maintain a Capital Repair and Replacement Reserve fund account for the Public Housing Program.

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

	2014	2013
Balance, beginning of year	\$ 4,772,990	\$ 4,359,107
Funding from the Region	205,078	560,058
Transfer in from operating	1,782,441	1,640,022
Interest earned	77,495	97,265
Capital expenditures	(1,885,396)	(1,883,462)
Net activity	179,618	413,883
Balance, end of year	\$ 4,952,608	\$ 4,772,990

(b) Emergency Power Plan:

Following the examination of the Corporation's emergency power capabilities in a long-term power outage, the Board of Directors approved the use of \$910,500 from retained earnings to fund emergency power upgrades in several apartment buildings. The multi-year plan addresses operational and tenant safety issues. A major generator installation was scheduled for completion in 2014, which was later deferred to 2015 along with a second major generator installation. An additional \$404,000 from retained earnings is requested in the 2015 budget to cover the cost of the two installations.

	2014	2013
Balance, beginning of year	\$ 317,863	\$ 526,312
Direct costs	(41,746)	(208,449)
Balance, end of year	\$ 276,117	\$ 317,863

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Reserve funds (continued):

(c) 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.

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. The initial contribution to the reserve from retained earnings was \$200,000 in 2006 with a budgeted annual contribution thereafter.

Based on reserve activity from prior years, the Board of Directors approved adjustments to the threshold balance of the reserve, as well as the annual contribution limit in 2010. The reserve balance will continue to be monitored yearly for adequacy against claims costs.

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.

	2014	2013
Balance, beginning of year	\$ 180,000	\$ 181,913
Contribution to reserve	25,000	25,000
Discretionary contribution to reserve	25,149	11,236
Claims paid, net of recoveries	(50,149)	(38,149)
Net activity	–	(1,913)
Balance, end of year	\$ 180,000	\$ 180,000

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Reserve funds (continued):

(d) Strategic Projects:

The Board of Directors approved \$50,000 to be allocated to various strategic projects in 2011. The funds in this reserve covered the 2013 and 2014 approved strategic projects. The reserve was closed at the end of 2014.

	2014	2013
Balance, beginning of year	\$ 10,217	\$ 24,441
Expenditures	(10,217)	(14,224)
Balance, end of year	\$ —	\$ 10,217

(e) Operating Contingency Reserve:

Management sets up a Contingency Fund for maintenance cost for the two new properties: Mackenzie Green and Lakeside Residences. The new reserve fund was subsequently approved by The Board of Directors in early 2015.

	2014	2013
Balance, beginning of year	\$ —	\$ —
Contribution to reserve	23,700	—
Balance, end of year	\$ 23,700	\$ —

(f) 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 is recognized as a direct increase in shareholder's equity in the amount of \$37,420,871 in 2013.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Reserve funds (continued):

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 shareholder's equity in the amount of \$19,405,805.

	2014	2013
Balance, beginning of year	\$ 51,825,801	\$ 14,404,930
Contributions	19,405,805	37,420,871
Balance, end of year	\$ 71,231,606	\$ 51,825,801

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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

5. Restricted investments (continued):

Reserve fund investments comprise the following:

	2014	2013
Security description:		
Social Housing Canadian Short Term Bond Fund	\$ 3,017,979	\$ 2,958,437
Social Housing Canadian Bond Fund	3,232	3,124
Social Housing Canadian Equity Fund	5,506	5,137
Total reserve fund investments	\$ 3,026,717	\$ 2,966,698

(b) Operating fund investments:

Surplus operating funds are invested to improve upon the return that would otherwise be made earning bank interest. Surplus operating funds would include restricted funds from retained earnings and short-term cash flow excesses not needed to support operations. Investments of this nature typically fall into a short-term investment horizon of three months to four years. Operating fund investments comprise the following:

2014	Par value	Maturity date	Yield to maturity
Security description:			
CIBC Bank Deposit Note	\$ 1,000,000	January 14, 2016	2.302%
Province of British Columbia Bond	500,000	December 18, 2015	1.531%
Province of Ontario Bond	500,000	September 8, 2016	1.736%
Unamortized premiums (discounts)	37,039		
Total operating fund investments	\$ 2,037,039		

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

5. Restricted investments (continued):

2013	Par value	Maturity date	Yield to maturity
Security description:			
CIBC Bank Deposit Note	\$ 1,000,000	January 14, 2016	2.302%
Province of British Columbia Bond	500,000	December 18, 2015	1.531%
Province of Ontario Bond	500,000	September 8, 2016	1.736%
Unamortized premiums (discounts)	69,908		
<hr/>			
Total operating fund investments	\$ 2,069,908		

6. Related party transactions:

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

	2014	2013
Subsidies:		
Provincial Reform Program	\$ 6,584,529	\$ 6,596,127
Public Housing Program	2,413,236	2,466,656
Blue Door Shelters	115,587	115,928
Other	50,435	—
	<hr/>	<hr/>
	9,163,787	9,178,711
Less surplus subsidy payable to System Service Manager	499,800	1,225,280
	<hr/>	<hr/>
	\$ 8,663,987	\$ 7,953,431

The Region provided contracted services of personnel, rental of office space and other administrative costs. The cost of these services, aggregating \$5,888,218 (2013 - \$5,599,123), 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 \$1,532,316 (2013 - \$1,305,514).

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2014

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, 2014 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.

8. Subsequent event:

A new development, Belinda's Place Women's Shelter, will be added to the Corporation's portfolio in the summer of 2015. This building in the Town of Newmarket will be owned by the Corporation but operated by a third party provider through an operating agreement.