

DRAFT #5
April 24, 2014

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2013

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, 2013, 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Housing York Inc. as at December 31, 2013, 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, 2013, with comparative information for 2012

	2013	2012
Assets		
Current assets:		
Cash	\$ 6,583,460	\$ 4,516,050
Accounts receivable:		
Rents	248,525	289,823
GST/HST	336,496	304,353
Other	401,736	431,440
Prepaid expenses	404,271	369,157
	<u>7,974,488</u>	<u>5,910,823</u>
Restricted cash and investments:		
Rental deposits	570,503	414,990
Reserve fund deposits	1,123,489	1,313,029
Energy Management Strategy Reserve	-	844,576
Emergency Power Plan Reserve	317,863	526,312
Insurance Reserve	180,000	181,913
Reserve fund for Voyager Upgrade Project	-	39,887
Reserve fund for Fairy Lake Pond	-	233,790
Strategic Projects	10,217	24,441
Reserve fund investments (note 5)	2,966,698	2,906,911
Operating fund investments (note 5)	2,069,908	2,102,777
	<u>7,238,678</u>	<u>8,588,636</u>
Property holdings (note 2)	135,092,316	102,123,398
Furniture and fixtures	235,631	97,277
	<u>\$ 150,541,113</u>	<u>\$ 116,720,134</u>

	2013	2012
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,394,523	\$ 2,480,481
Deferred revenue	923,732	781,891
Amounts due to Regional Municipality of York, without interest or terms of repayment	3,571,857	3,548,220
Current portion of mortgages payable (note 3)	4,501,130	4,313,599
	<u>11,391,242</u>	<u>11,124,191</u>
Building financing:		
Loan agreements (note 3)	5,834,000	5,834,000
Mortgages payable (note 3)	73,613,378	78,114,508
	<u>79,447,378</u>	<u>83,948,508</u>
Shareholder's equity (note 4):		
Reserve fund for Capital Repair and Replacement	4,772,990	4,359,107
Reserve fund for Energy Management Strategy Project	-	844,576
Reserve fund for Emergency Power Plan Project	317,863	526,312
Reserve fund for Insurance Reserve	180,000	181,913
Reserve fund for Voyager Upgrade Project	-	39,897
Reserve fund for Fairy Lake Pond	-	233,790
Reserve fund for Strategic Projects	10,217	24,441
Shareholder's equity	51,825,801	14,404,930
Retained earnings	2,595,622	1,032,469
	<u>59,702,493</u>	<u>21,647,435</u>
Subsequent events (note 8)		
	<u>\$ 150,541,113</u>	<u>\$ 116,720,134</u>

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, 2013, with comparative information for 2012

	2013 Budget	2013 Actual	2012 Actual
Revenue:			
Rental	\$ 17,560,276	\$ 17,676,160	\$ 15,935,825
Non-rental	1,074,881	644,873	550,123
Operating subsidies (note 6)	9,291,151	7,953,431	8,093,348
Operating surplus	307,499	667,369	236,493
	<u>28,233,807</u>	<u>26,941,833</u>	<u>24,815,789</u>
Expenditures:			
Mortgage payments (note 3)	9,942,179	9,211,125	9,262,764
Administration and maintenance	8,673,698	8,404,916	7,668,494
Property taxes	2,704,232	2,681,639	2,282,790
Utilities	3,354,031	2,542,310	2,665,343
Capital	1,318,623	1,125,957	1,015,906
Insurance	378,872	397,163	367,122
Shelter	184,895	176,999	118,347
Bad debts	93,322	58,098	57,100
	<u>26,649,852</u>	<u>24,598,207</u>	<u>23,437,866</u>
Excess of revenue over expenditures before the undernoted	1,583,955	2,343,626	1,377,923
Contribution to Capital Reserve (note 4)	938,957	1,640,022	1,116,430
Excess of revenue over expenditures	644,998	703,604	261,493
Retained earnings, beginning of year		1,032,469	715,976
Internal allocations:			
Contribution from Insurance Reserve (note 4)		(36,236)	(25,000)
Energy Management Program (note 4)		177,430	-
Energy Management Loan Repayment		690,000	80,000
Voyager Reserve		28,355	-
Retained earnings, end of year		<u>\$ 2,595,622</u>	<u>\$ 1,032,469</u>

See accompanying notes to financial statements.

HOUSING YORK INC.**DRAFT** Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenditures	\$ 703,604	\$ 261,493
Amortization of income-producing properties which does not involve cash	4,313,599	3,985,250
Cash contributions to/from reserves	(69,417)	(1,460,500)
Change in non-cash operating working capital:		
Accounts receivable	38,859	(272,775)
Prepaid expenses	(35,114)	(35,673)
Inventory	—	36,744
Accounts payable and accrued liabilities	(85,958)	492,108
Deferred revenue	141,841	219,697
Amounts due to/from Regional Municipality of York	23,637	187,105
	5,031,051	3,413,449
Financing activities:		
Principal repayment	(4,313,599)	(3,985,250)
Investing activities:		
Increase in restricted cash - rental deposits	(155,513)	(30,377)
Decrease (increase) in restricted cash - reserve fund deposits	189,540	(320,384)
Decrease (increase) in restricted cash - reserve fund investments	(59,787)	1,852,849
Decrease in restricted cash - Energy Management Strategy Reserve	844,576	37,914
Decrease (increase) in restricted cash - Insurance Reserve	1,913	(20,786)
Decrease in restricted cash - Emergency Power Plan Reserve	208,449	13,229
Decrease in restricted cash - reserve fund for Voyager Upgrade Project	39,897	53,557
Decrease in restricted cash - reserve fund for Fairy Lake Pond	233,790	260,435
Decrease in restricted cash - Strategic Projects	14,224	18,271
Decrease (increase) in operating fund investments	32,869	(62,293)
	1,349,958	1,802,415
Increase in cash	2,067,410	1,230,614
Cash, beginning of year	4,516,050	3,285,436
Cash, end of year	\$ 6,583,460	\$ 4,516,050
Supplemental cash flow information:		
Property holdings donated	\$ 37,420,871	\$ —

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Notes to Financial Statements

Year ended December 31, 2013

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, and Mackenzie Green.

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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

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.

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.

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 Armitage Garden. A second property, Blue Willow, was added to this program in October 2006. A third location, Tom Taylor Place, was added to this program in 2008. A fourth location, Kingview Court Expansion, was added to this program in 2011. A fifth location, Mapleglen Residences, was added to the program in 2012. A sixth location, Mackenzie Green, was added in 2013. Unlike the first, second and fifth building, the Corporation holds title for the third, fourth, and sixth building, which are reported on the financial statements. The land, building and equipment for the leased sites are not reflected on the Corporation's book of accounts.

(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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2013

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, 2013

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 re-measurement 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 of December 31, 2013, the portfolio consists of 35 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, 2013

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:

	2013	2012
Income-producing properties:		
Land	\$ 25,232,345	\$ 25,232,345
Buildings	96,232,555	96,232,553
	121,464,900	121,464,898
Less accumulated amortization	43,350,392	39,036,793
Net book value	\$ 78,114,508	\$ 82,428,105
Other properties:		
Land	\$ 7,188,947	\$ 315,000
Buildings	50,548,854	20,140,286
	57,737,801	20,455,286
Less accumulated amortization	759,993	759,993
Net book value	\$ 56,977,808	\$ 19,695,293

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

2. Property holdings (continued):

	2013	2012
Total property holdings:		
Land	\$ 32,421,292	\$ 25,547,345
Buildings	146,781,409	116,372,839
	<u>179,202,701</u>	<u>141,920,184</u>
Less accumulated amortization	44,110,385	39,796,786
Net book value	\$ 135,092,316	\$ 102,123,398

3. Mortgages payable:

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

Property	Particulars	2013	2012
Glenwood Mews	Mortgage payable, bearing interest at 4.540% per annum with blended monthly payments of \$39,167, maturing February 1, 2015	\$ 4,047,121	\$ 4,328,262
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of \$70,011, maturing January 1, 2025	7,199,354	7,530,502
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of \$87,877, maturing January 1, 2024	9,585,583	10,064,991
Mulock Village	Mortgage payable, bearing interest at 4.547% per annum with blended monthly payments of \$80,593, maturing March 1, 2017	9,639,026	10,159,198
Heritage East	Mortgage payable, bearing interest at 2.693% per annum with blended monthly payments of \$77,170, maturing October 1, 2015	10,481,441	11,117,527

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Mortgages payable (continued):

Property	Particulars	2013	2012
Hadley Grange	Mortgage payable, bearing interest at 4.486% per annum with blended monthly payments of \$43,297, maturing February 1, 2018	5,454,516	5,725,093
Brayfield Manor	Mortgage payable, bearing interest at 5.940% per annum with blended monthly payments of \$70,757, maturing July 1, 2028	8,311,533	8,661,711
Oxford Village	Mortgage payable, bearing interest at 4.390% per annum with blended monthly payments of \$17,571, maturing June 1, 2015	2,453,719	2,555,441
Rose Town	Mortgage payable, bearing interest at 1.880% per annum with blended monthly payments of \$39,771, maturing December 1, 2022	3,949,940	4,349,184
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of \$11,214, maturing April 1, 2015	1,527,510	1,588,779
Trinity Square	Mortgage payable, bearing interest at 4.609% per annum with blended monthly payments of \$77,391, maturing March 1, 2015	9,219,863	9,715,298
Thornhill Green	Mortgage payable, bearing interest at 2.112% per annum with blended monthly payments of \$36,679, maturity December 1, 2017	5,388,383	5,711,539
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	856,519	920,582
		78,114,508	82,428,107
Less current portion		4,501,130	4,313,599
		\$ 73,613,378	\$ 78,114,508

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Mortgages payable (continued):

Principal repayments are as follows:

2014	\$ 4,501,130
2015	29,091,884
2016	3,139,026
2017	14,621,506
2018	6,830,127
Thereafter	19,930,835
	\$ 78,114,508

(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
	5,834,000
Shareholder contribution (iii)	3,720,635
	\$ 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, 2013

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 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, 2013

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 \$1,360,871. 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.

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.

Buildings in the Regional Housing Program contribute a significant portion of annual surplus operating funds to a capital reserve 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.

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Reserve funds (continued):

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

	2013	2012
Balance, beginning of year	\$ 4,359,107	\$ 5,511,985
Funding from Region	580,058	415,577
Transfer in from operating	1,640,022	1,116,430
Interest earned	97,265	173,298
Capital expenditures	(1,883,462)	(2,858,183)
Net activity	413,883	(1,152,878)
Balance, end of year	\$ 4,772,990	\$ 4,359,107

(b) Multi-year Energy Management Strategy - year five:

The multi-year Energy Management Program is now completed. During the five-year program, 25 buildings were retrofitted at a rate of five buildings per year. As of December 31, 2012, only \$800,000 has been borrowed from the \$3,500,000 interest-free innovative fund approved by Regional Council. The interest-free loan was fully repaid by the end of 2013.

	2013	2012
Balance, beginning of year	\$ 844,576	\$ 882,491
Funding sources:		
Incentives and rebate assistance	26,370	-
Utility savings	-	344,214
	26,370	344,214
Expenditures:		
Direct costs and project administration	(3,516)	(302,129)
Loan repayment as per Region agreement	(690,000)	(80,000)
Close out reserve balance	(177,430)	-
	(870,946)	(382,129)
Net activity	(844,576)	(37,915)
Balance, end of year	\$ -	\$ 844,576

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Reserve funds (continued):

(c) 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 is scheduled for completion in 2014, which is expected to use the majority of the remaining funds in this reserve.

	2013	2012
Balance, beginning of year	\$ 526,312	\$ 539,541
Direct costs	(208,449)	(13,229)
Balance, end of year	\$ 317,863	\$ 526,312

(d) 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.

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Reserve funds (continued):

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.

	2013	2012
Balance, beginning of year	\$ 181,913	\$ 161,127
Contribution to reserve	25,000	25,000
Discretionary contribution to reserve	11,236	—
Claims paid, net of recoveries	(38,149)	(4,214)
Net activity	(1,913)	20,786
Balance, end of year	\$ 180,000	\$ 181,913

(e) Voyager Upgrade Project:

A one-time subsidy agreement was executed with the Region in 2010 to fund a major upgrade in property management and financial software. The first phase of the project was delivered in 2010 and further modules were implemented in 2011. Ulterior upgrades were completed in 2012 and in 2013 with the reserve winding down at the end of the year.

	2013	2012
Balance, beginning of year	\$ 39,897	\$ 93,454
Expenditures	(11,542)	(53,557)
Close out reserve balance	(28,355)	—
Net activity	(39,897)	(53,557)
Balance, end of year	\$ —	\$ 39,897

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Reserve funds (continued):**(f) Fairy Lake Pond Remediation:**

Working with the Region's Environmental Services Department, consulting services were completed concerning accumulated silt in a pond at 468 and 474 Eagle Street in the Town of Newmarket. The pond allows storm water run-off to flow from a creek into Fairy Lake. The pond forms part of the East Holland River system which is part of the Lake Simcoe watershed. The remediation of the pond provides environmental, economic and social benefits.

Both environmental and public consulting was completed in 2010. Remediation was completed in 2012. Under Regional direction, the unused portion of the initial \$600,000 budget for this project has been transferred to the Corporation's capital reserve at the end of the fiscal year.

	2013	2012
Balance, beginning of year	\$ 233,790	\$ 494,225
Expenditures	(3,657)	(260,435)
Close out reserve balance	(230,133)	—
Net activity	(233,790)	(260,435)
Balance, end of year	\$ —	\$ 233,790

(g) 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 2012 and 2013 approved strategic projects.

	2013	2012
Balance, beginning of year	\$ 24,441	\$ 42,713
Expenditures	(14,224)	(18,272)
Balance, end of year	\$ 10,217	\$ 24,441

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Reserve funds (continued):

(h) 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.

	2013	2012
Balance, beginning of year	\$ 14,404,930	\$ 14,334,330
Contributions	37,420,871	70,600
Balance, end of year	\$ 51,825,801	\$ 14,404,930

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, 2013

5. Restricted Investments (continued):

Reserve fund investments are comprised of the following:

	2013	2012
Security description:		
Social Housing Canadian Short Term Bond Fund	\$ 2,958,437	\$ 2,899,041
Social Housing Canadian Bond Fund	3,124	2,915
Social Housing Canadian Equity Fund	5,137	4,955
Total reserve fund investments	\$ 2,966,698	\$ 2,906,911

(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 are comprised of the following:

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)	69,903		
Total operating fund investments	\$ 2,069,903		

HOUSING YORK INC.**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2013

5. Restricted investments (continued):

2012	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)	102,777		
Total operating fund investments	\$ 2,102,777		

6. Related party transactions:

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

	2013	2012
Subsidies:		
Provincial Reform Program	\$ 6,596,127	\$ 6,632,533
Public Housing Program	2,466,656	2,200,000
Blue Door Shelters	115,928	115,593
	9,178,711	8,948,126
Less surplus subsidy payable to System Service Manager	1,225,280	854,778
	\$ 7,953,431	\$ 8,093,348

The Region provided contracted services of personnel, rental of office space and other administrative costs. The cost of these services, aggregating \$5,599,123 (2012 - \$6,141,783), 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 \$1,305,514 (2012 - \$1,189,977).

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2013

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, 2013 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 events:

A new development will be added to the Corporation's portfolio in the summer of 2014. This building in the Town of Georgina will provide 97 units for a mixed population of tenants.