Financial Statements of

SAULT STE. MARIE HOUSING CORPORATION

Year ended December 31, 2017

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie Ontario P6A 6L6
Canada
Tel (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Directors of Sault Ste. Marie Housing Corporation

We have audited the accompanying financial statements of Sault Ste. Marie Housing Corporation, which comprise the statement of financial position as at December 31, 2017, the statements of operations and surplus 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 based on the financial reporting provisions of Section 113(2) of the Social Housing Reform Act.

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 113(2) of the Social Housing Reform Act, 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.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sault Ste. Marie Housing Corporation as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 113(2) of the Social Housing Reform Act.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 19, 2018

Sault Ste. Marie, Canada

SAULT STE. MARIE HOUSING CORPORATION
Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	$ 2,684,504	$ 2,536,161
Accounts receivable	485,420	573,834
	3,169,924	3,109,995
Capital assets (note 2)	1,933,683	2,389,728
	$ 5,103,607	$ 5,499,723
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 675,814	$ 830,186
Current portion of long-term debt (note 3)	488,839	456,045
	1,164,653	1,286,231
Long-term debt (note 3)	1,401,828	1,890,667
	2,566,481	3,176,898
Shareholder's equity:		
Share capital (note 4)	1	1
Contributed surplus	43,016	43,016
Replacement reserve (note 5)	1,282,998	1,108,361
Surplus	1,211,111	1,171,447
	2,537,126	2,322,825
	$ 5,103,607	$ 5,499,723

See accompanying notes to financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

SAULT STE. MARIE HOUSING CORPORATION

Statement of Operations and Surplus

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Rental	$ 2,992,175	$ 3,019,790
District of Sault Ste. Marie Social Services Administration Board	2,922,819	2,839,544
Miscellaneous	85,659	311,015
Interest	24,483	24,746
	6,025,136	6,195,095
Expenses:		
Building repairs and maintenance	1,285,050	1,221,405
Utilities	1,253,339	1,417,213
Building capital	1,211,246	1,447,432
Municipal property taxes	937,932	883,735
Amortization of capital assets	456,045	450,572
Insurance	173,176	154,963
Mortgage interest	163,806	195,945
Grounds maintenance	133,361	163,439
Program operations	122,920	112,616
Bad debts	60,195	91,970
Professional fees	10,300	10,000
Interest and bank charges	3,465	2,704
	5,810,835	6,151,994
Excess of revenue over expenses	214,301	43,101
Surplus, beginning of year	1,171,447	1,040,268
Allocation (to) from replacement reserve	(174,637)	88,078
Surplus, end of year	$ 1,211,111	$ 1,171,447

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION
Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash flows from operating activities:		
Excess of revenue over expenses	$ 214,301	$ 43,101
Item not involving cash:		
Amortization of capital assets	456,045	450,572
	670,346	493,673
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	88,414	(125,426)
Increase (decrease) in accounts payable and accrued liabilities	(154,372)	469,571
	604,388	837,818
Cash flows from financing activities:		
Reduction in long-term debt	(456,045)	(450,572)
Increase in cash	148,343	387,246
Cash, beginning of year	2,536,161	2,148,915
Cash, end of year	$ 2,684,504	$ 2,536,161

See accompanying notes to financial statements.

Sault Ste. Marie Housing Corporation (the "Corporation") was incorporated in the Province of Ontario on December 14, 2000. The objects of the Corporation state that the Corporation will provide for accommodation to persons of low or modest income and to persons with special needs. The Corporation is exempt from income tax under section 149(1)(d.5) of the Income Tax Act as a municipal corporation.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with administrative and financial reporting provisions of Section 113(2) of the Social Housing Reform Act. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for not-for-profit organizations because:

(i) Amortization on building, furniture and equipment purchased from loans recognized by CMHC is not provided over the estimated useful lives of these assets but rather at a rate equal to the annual principal reduction of the mortgage.

(ii) Capital assets:

i) purchased from accumulated surplus are charged to operations in the year the expenditure is incurred; and

(ii) purchased from the replacement reserve are charged against the replacement reserve account, rather than being capitalized on the statement of financial position and amortized over their estimated useful lives.

(b) Accrual basis of accounting:

Revenue and expenses are recorded on the accrual basis, whereby they are reflected in the accounts in the period in which they have been earned and incurred respectively, whether or not such transactions have been finally settled by the receipt or payment of fund.

(c) Capital assets:

Buildings and properties are recorded at a value equivalent to the debt transferred by the Province of Ontario and are being amortized at an amount equal to principal repayments on the respective mortgages. Capital asset additions subsequent to the transfer from the Province are being charged to expense when incurred unless financed by new debt.

1. Significant accounting policies (continued):

(d) Revenue recognition:

Revenue is recorded as earned monthly from tenants and from an agreement in place with the District of Sault Ste. Marie Social Services Administration Board.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Use of estimates:

The preparation of the 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of capital assets and valuation allowances for accounts receivable. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

2. Capital assets:

			2017
	Cost	Accumulated amortization	Net book value
Land and buildings	$ 7,874,037	$ 5,983,370	$ 1,890,667
Equipment and fixtures	43,016	-	43,016
	$ 7,917,053	$ 5,983,370	$ 1,933,683

			2016
	Cost	Accumulated amortization	Net book value
Land and buildings	$ 7,874,037	$ 5,527,325	$ 2,346,712
Equipment and fixtures	43,016	-	43,016
	$ 7,917,053	$ 5,527,325	$ 2,389,728

3. Long-term debt:

	2017	2016
Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 6.09% to 8.10%, annual payments of $646,517, due dates ranging from January 2018 to January 2024	$ 1,890,667	$ 2,346,712
Less current portion of long-term debt	488,839	456,045
	$ 1,401,828	$ 1,890,667

3. Long-term debt (continued):

Principal repayments are due as follows:

2018	$ 488,839
2019	432,489
2020	463,570
2021	225,868
2022	239,888
Thereafter	40,013
	$ 1,890,667

4. Share capital:

	2017	2016
Authorized:		
Unlimited common shares		
Issued:		
100 Common Shares	$ 1	$ 1

5. Replacement reserve:

	2017	2016
Balance, beginning of year	$ 1,108,361	$ 1,196,439
Allocation to (from) operating funds	174,637	(88,078)
Balance, end of year	$ 1,282,998	$ 1,108,361

The Board of Directors of the Corporation have approved the establishment of a capital replacement reserve in order to meet the budgeting needs for future capital expenditures.

6. Financial risks and concentration of risk:

(a) 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 budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2016.

(b) 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. The Corporation assesses, on a continuous basis, accounts receivable and provides for any amounts that are collectible in the allowance for doubtful accounts.

(c) Interest rate risk:

The Corporation is exposed to interest rate risk on its fixed interest rate financial instruments. Further details about the fixed rate long-term debt is included in note 3.