

Financial Statements of

**SAULT STE. MARIE
HOUSING CORPORATION**

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Directors of Sault Ste. Marie Housing Corporation

Opinion

We have audited the financial statements of Sault Ste. Marie Housing Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and surplus 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, 2018 and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Regulation 367/11 Section 103 (2) of the Housing Services Act 2011 (Ontario).

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 - Basis of Preparation

We draw attention to Note 1 to the financial statements, which describes the basis of accounting.

The financial statements are prepared to assist Sault Ste. Marie Housing Corporation to meet the requirements of the District of Sault Ste. Marie Services Administration Board and the Canada Mortgage and Housing Corporation. 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 Regulation 367/11 Section 103 (2) of the Housing Services Act 2011 (Ontario), 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 to 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.



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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

May 16, 2019

SAULT STE. MARIE HOUSING CORPORATION

Statement of Financial Position

December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|-------------------------|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 3,043,708 | \$ 2,684,504 |
| Accounts receivable | 1,056,034 | 485,420 |
| | <u>4,099,742</u> | <u>3,169,924</u> |
| Capital assets (note 2) | 1,012,356 | 1,444,844 |
| | <u>\$ 5,112,098</u> | <u>\$ 4,614,768</u> |

Liabilities and Shareholder's Equity

| | | |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,263,072 | \$ 675,814 |
| Current portion of long-term debt (note 3) | 463,570 | 432,489 |
| | <u>1,726,642</u> | <u>1,108,303</u> |
| Long-term debt (note 3) | 505,769 | 969,339 |
| | <u>2,232,411</u> | <u>2,077,642</u> |
| Shareholder's equity: | | |
| Share capital (note 4) | 1 | 1 |
| Contributed surplus | 43,016 | 43,016 |
| Replacement reserve (note 5) | 990,069 | 1,282,998 |
| Surplus | 1,846,601 | 1,211,111 |
| | <u>2,879,687</u> | <u>2,537,126</u> |
| | <u>\$ 5,112,098</u> | <u>\$ 4,614,768</u> |

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, 2018, with comparative information for 2017

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Revenue: | | |
| District of Sault Ste. Marie Social Services | | |
| Administration Board | \$ 3,301,263 | \$ 2,922,819 |
| Rental | 3,178,134 | 2,992,175 |
| Miscellaneous | 156,558 | 85,659 |
| Interest | 53,808 | 24,483 |
| | <u>6,689,763</u> | <u>6,025,136</u> |
| General and administrative expenses: | | |
| Building capital | 1,723,954 | 1,211,246 |
| Building repairs and maintenance | 1,294,546 | 1,285,050 |
| Utilities | 1,244,072 | 1,253,339 |
| Municipal property taxes | 945,135 | 937,932 |
| Amortization of capital assets | 432,489 | 488,840 |
| Insurance | 178,594 | 173,176 |
| Grounds maintenance | 171,583 | 133,361 |
| Program operations | 134,208 | 122,920 |
| Bad debts | 110,659 | 60,195 |
| Mortgage interest | 95,827 | 131,011 |
| Professional fees | 11,100 | 10,300 |
| Interest and bank charges | 5,035 | 3,465 |
| | <u>6,347,202</u> | <u>5,810,835</u> |
| Net earnings | <u>\$ 342,561</u> | <u>\$ 214,301</u> |

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings | \$ 342,561 | \$ 214,301 |
| Item not involving cash: | | |
| Amortization of capital assets | 432,489 | 488,840 |
| | <u>775,050</u> | <u>703,141</u> |
| Changes in non-cash operating working capital: | | |
| Decrease (increase) in accounts receivable | (570,614) | 88,414 |
| Increase (decrease) in accounts payable and accrued liabilities | 587,257 | (154,372) |
| | <u>791,693</u> | <u>637,183</u> |
| Financing: | | |
| Reduction in long-term debt | (432,489) | (488,840) |
| <hr/> | | |
| Increase in cash | 359,204 | 148,343 |
| Cash, beginning of year | 2,684,504 | 2,536,161 |
| Cash, end of year | <u>\$ 3,043,708</u> | <u>\$ 2,684,504</u> |

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2018

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 Regulation 367/11 Section 103 (2) of the Housing Services Act 2011 (Ontario). The basis of accounting used in these financial statements materially differs from Canadian accounting standards for not-for-profit organizations as follows:

- (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) Contributions to the replacement reserve funds are included in the Statement of operations and surplus.
- (iii) Capital expenditures that are separately funded by the District of Sault Ste. Marie Social Services Administration Board are expensed to match the related funding recognized.
- (iv) Investments in the capital reserve are recorded at cost.

(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.

(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.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(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.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

2. Capital assets:

| | | | 2018 |
|------------------------|--------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| Land and buildings | \$ 7,874,037 | \$ 6,904,697 | \$ 969,340 |
| Equipment and fixtures | 43,016 | - | 43,016 |
| | \$ 7,917,053 | \$ 6,904,697 | \$ 1,012,356 |

| | | | 2017 |
|------------------------|--------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value |
| Land and buildings | \$ 7,874,037 | \$ 6,472,209 | \$ 1,401,828 |
| Equipment and fixtures | 43,016 | - | 43,016 |
| | \$ 7,917,053 | \$ 6,472,209 | \$ 1,444,844 |

3. Long-term debt:

| | 2018 | 2017 |
|---|------------|--------------|
| Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 6.09% to 8.10%, annual principal and interest payments of \$528,316, due dates ranging from January 2020 to January 2024 | \$ 969,339 | \$ 1,401,828 |
| Less current portion of long-term debt | 463,570 | 432,489 |
| | \$ 505,769 | \$ 969,339 |

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Long-term debt (continued):

Principal repayments are due as follows:

| | | |
|------|----|---------|
| 2019 | \$ | 463,570 |
| 2020 | | 225,868 |
| 2021 | | 239,888 |
| 2022 | | 22,875 |
| 2023 | | 17,138 |
| | \$ | 969,339 |

4. Share capital:

| | 2018 | 2017 |
|-------------------------|------|------|
| Authorized: | | |
| Unlimited common shares | | |
| Issued: | | |
| 100 Common Shares | \$ 1 | \$ 1 |

5. Replacement reserve:

| | 2018 | 2017 |
|---------------------------------|--------------|--------------|
| Balance, beginning of year | \$ 1,282,998 | \$ 1,108,361 |
| Allocation from operating funds | 157,071 | 174,637 |
| Transfers from reserve | (450,000) | - |
| Balance, end of year | \$ 990,069 | \$ 1,282,998 |

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.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

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 2017.

(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.

7. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year surplus.