

Financial Statements of

**SAULT STE. MARIE
HOUSING
CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2019



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.



Page 3

- 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

June 18, 2020

SAULT STE. MARIE HOUSING CORPORATION

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,952,531	\$ 3,043,708
Accounts receivable	704,931	1,056,034
Due from District of Sault Ste. Marie Social Services Administration Board	850,740	-
	4,508,202	4,099,742
Capital assets (note 2)	548,785	1,012,355
	\$ 5,056,987	\$ 5,112,097

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,709,141	\$ 1,262,072
Deferred revenue (note 3)	287,544	-
Current portion of long-term debt (note 4)	225,869	463,570
Due to District of Sault Ste. Marie Social Services Administration Board	-	999
	2,222,554	1,726,641
Long-term debt (note 4)	279,900	505,769
	2,502,454	2,232,410
Shareholder's equity:		
Share capital (note 5)	1	1
Contributed surplus	43,016	43,016
Replacement reserve (note 6)	990,069	990,069
Surplus	1,521,447	1,846,601
	2,554,533	2,879,687
Commitments (note 8)		
Subsequent event and contingencies (note 10)		
	\$ 5,056,987	\$ 5,112,097

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, 2019, with comparative information for 2018

	2019	2018
Revenue:		
District of Sault Ste. Marie Social Services Administration Board (note 7)	\$ 7,895,918	\$ 3,301,263
Rental	3,148,817	3,178,134
Interest	74,465	53,808
Miscellaneous	42,315	156,558
	<u>11,161,515</u>	<u>6,689,763</u>
Expenses:		
Building capital	6,470,005	1,723,954
Building repairs and maintenance	1,455,889	1,294,546
Utilities	1,262,701	1,244,072
Municipal property taxes	1,013,348	945,135
Amortization of capital assets	463,570	432,489
Grounds maintenance	236,587	171,583
Insurance	235,082	178,594
Program operations	161,704	134,208
Bad debts	102,167	110,659
Mortgage interest	64,747	95,827
Professional fees	15,179	11,100
Interest and bank charges	5,690	5,035
	<u>11,486,669</u>	<u>6,347,202</u>
Net earnings (loss)	(325,154)	342,561
Surplus, beginning of year	1,846,601	1,211,111
Allocation from replacement reserve	-	292,929
Surplus, end of year	<u>\$ 1,521,447</u>	<u>\$ 1,846,601</u>

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (325,154)	\$ 342,561
Item not involving cash:		
Amortization of capital assets	463,570	432,489
	138,416	775,050
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	351,103	(570,614)
Increase in due from District of Sault Ste. Marie Social Services Administration Board	(850,740)	-
Increase in accounts payable and accrued liabilities	447,068	587,257
Increase in deferred revenue	287,544	-
Decrease in due from District of Sault Ste. Marie Social Services Administration Board	(999)	-
	372,392	791,693
Financing:		
Reduction in long-term debt	(463,569)	(432,489)
Increase (decrease) in cash	(91,177)	359,204
Cash, beginning of year	3,043,708	2,684,504
Cash, end of year	\$ 2,952,531	\$ 3,043,708

See accompanying notes to financial statements.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2019

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.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(d) Revenue recognition:

The Corporation recognizes revenue on accommodation charges on a monthly accrual basis when collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the amount is fixed or determinable. Other income is recorded when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Subsidy revenue is recognized in accordance with the requirements of the Housing Services Act, 2011.

(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 not-for-profit 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 not-for-profit 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 not-for-profit 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.

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(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:

			2019
	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 7,874,037	\$ 7,368,268	\$ 505,769
Equipment and fixtures	43,016	-	43,016
	<u>\$ 7,917,053</u>	<u>\$ 7,368,268</u>	<u>\$ 548,785</u>

			2018
	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 7,874,037	\$ 6,904,698	\$ 969,339
Equipment and fixtures	43,016	-	43,016
	<u>\$ 7,917,053</u>	<u>\$ 6,904,698</u>	<u>\$ 1,012,355</u>

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

3. Deferred revenue:

Deferred revenue consists of funds received under the Ontario Home Affordability Program. Under the program, funds will be used to rebuild homes in a state of disrepair. These homes will then sold to residents of community housing and low-income community members on a cost recovery basis. These amounts will be recognized as revenue when the related expense is incurred.

	2019	2018
Balance, beginning of year	\$ -	\$ -
Contributions received during the year	299,000	-
Contributions recognized as revenue during the year	(11,456)	-
Balance, end of year	\$ 287,544	\$ -

4. Long-term debt:

	2019	2018
Canada Mortgage and Housing Corporation, various debentures, interest rates varying from 6.09% to 6.34%, annual principal and interest payments of \$257,264, due dates ranging from January 2020 to December 2023	\$ 505,768	\$ 969,339
Less current portion of long-term debt	(225,868)	(463,570)
	\$ 279,900	\$ 505,769

Principal repayments are due as follows:

2020	\$ 225,868
2021	239,888
2022	22,875
2023	17,137
	\$ 505,768

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

5. Share capital:

	2019	2018
Authorized:		
Unlimited common shares		
Issued:		
100 Common Shares	\$ 1	\$ 1

6. Replacement reserve:

	2019	2018
Balance, beginning of year	\$ 990,069	\$ 1,282,998
Allocation from operating funds	-	157,071
Transfers from reserve	-	(450,000)
Balance, end of year	\$ 990,069	\$ 990,069

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.

7. District of Sault Ste. Marie Social Services Administration Board revenue:

Funding from District of Sault Ste. Marie Social Services Administration Board consists of the following:

	2019	2018
Subsidy	\$ 2,789,566	\$ 2,932,016
Building capital funding	5,094,896	369,247
Affordable Home Pilot program	11,456	-
	\$ 7,895,918	\$ 3,301,263

SAULT STE. MARIE HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

8. Commitments:

The Corporation issued a letter of guarantee through its financial institution to provide a guarantee to a certain vendor. The outstanding letter of guarantee amounted to \$25,000 (2018 - \$Nil).

9. 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 2018.

(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.

10. Subsequent event and contingencies:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the Corporation has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID- 19 pandemic.

- Closure of administrative buildings from March 27, 2020 to the date of the auditors' report based on public health recommendations
- Mandatory working from home requirements for those able to do so

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.