
Financial statements of
Kawartha Lakes – Haliburton
Housing Corporation

December 31, 2018

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Independent Auditor's Report

To the Directors of
Kawartha Lakes - Haliburton Housing Corporation

Opinion

We have audited the financial statements of Kawartha Lakes - Haliburton Housing Corporation, which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kawartha Lakes - Haliburton Housing Corporation as at December 31, 2018, and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit* of the Financial Statements section of our report. We are independent of Kawartha Lakes - Haliburton Housing Corporation 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.

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 Canadian public sector accounting standards, 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 Kawartha Lakes - Haliburton Housing Corporation'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 Kawartha Lakes - Haliburton Housing Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Kawartha Lakes - Haliburton Housing Corporation's financial reporting process.

Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Kawartha Lakes - Haliburton Housing Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Kawartha Lakes - Haliburton Housing Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause Kawartha Lakes - Haliburton Housing Corporation 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Kawartha Lakes - Haliburton Housing Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive font followed by "LLP" in a simpler, bold font.

Chartered Professional Accountants
Licensed Public Accountants
June 11, 2019

Kawartha Lakes – Haliburton Housing Corporation

Statement of financial position

As at December 31, 2018

	Notes	2018 \$	2017 \$
Assets			
Cash		6,043,832	1,505,532
Investments	6	—	4,110,150
Accounts receivable and other assets		428,953	310,427
		6,472,785	5,926,109
Liabilities			
Accounts payable and accrued liabilities		1,661,489	957,160
Deferred revenue		—	37,595
Due to City of Kawartha Lakes	5	4,877,338	2,346,285
Accrued interest		11,191	11,995
Long term debt	4	3,093,702	3,613,005
		9,643,720	6,966,040
Net debt		(3,170,935)	(1,039,931)
Contingencies and commitments	11		
Non-financial assets			
Tangible capital assets	3	42,756,847	36,157,643
Inventory and prepaid expenses		164,834	148,856
		42,921,681	36,306,499
Accumulated surplus	10	39,750,746	35,266,568

The accompanying notes are an integral part of the financial statements.

On behalf of the Board

_____, Director

_____, Director

Kawartha Lakes – Haliburton Housing Corporation

Statement of operations

Year ended December 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	\$	\$	\$
Revenue			
Federal subsidy	—	—	98,505
Provincial subsidy	—	305,403	1,409,759
Municipal contributions			
Kawartha Lakes	1,917,050	5,145,857	3,460,952
Haliburton	96,720	96,797	61,055
Rental revenue	3,783,482	4,246,052	3,369,929
Fee revenue	99,863	100,578	98,524
Donations and other revenue	50,751	308,053	66,649
Gain on disposal of tangible capital assets	—	946,443	1,041,255
	5,947,866	11,149,183	9,606,628
Expenses			
Social housing	6,121,830	6,665,005	6,454,120
Annual surplus	(173,964)	4,484,178	3,152,508
Accumulated surplus, beginning of year	35,266,568	35,266,568	32,114,060
Accumulated surplus, end of year	35,092,604	39,750,746	35,266,568

The accompanying notes are an integral part of the financial statements.

Kawartha Lakes – Haliburton Housing Corporation

Statement of change in net debt

Year ended December 31, 2018

	Budget	2018	2017
	\$	Actual	Actual
	\$	\$	\$
Annual surplus	(173,964)	4,484,178	3,152,508
Acquisition of tangible capital assets	(1,089,278)	(8,003,567)	(3,173,590)
Amortization of tangible capital assets	631,594	1,385,018	914,259
Gain on disposal of tangible capital assets	—	(946,443)	(1,041,254)
Proceeds on disposal of tangible capital assets	—	965,788	1,145,000
	(631,648)	(2,115,026)	996,923
Net change in inventory and prepaid expenses	—	(15,978)	35,180
Change in net debt	(631,648)	(2,131,004)	1,032,103
Net debt, beginning of year	(1,039,931)	(1,039,931)	(2,072,034)
Net debt, end of year	(1,671,579)	(3,170,935)	(1,039,931)

The accompanying notes are an integral part of the financial statements.

Kawartha Lakes – Haliburton Housing Corporation**Statement of cash flows**

Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Annual surplus	4,484,178	3,152,508
Item not affecting cash		
Amortization of capital assets	1,385,018	914,259
Gain on disposal of tangible capital assets	(946,443)	(1,041,254)
	4,922,753	3,025,513
Changes in non-cash working capital items		
Accounts receivable and other assets	(118,526)	(116,605)
Inventory and prepaid expenses	(15,978)	35,180
Accounts payable and accrued liabilities	704,329	220,186
Deferred revenue	(37,595)	37,595
Accrued interest	(804)	(1,375)
	5,454,179	3,200,494
Capital activities		
Acquisition of tangible capital assets	(8,003,567)	(3,173,590)
Proceeds on disposal of tangible capital assets	965,788	1,145,000
	(7,037,779)	(2,028,590)
Investing activity		
Change in investments	4,110,150	(121,313)
Financing activities		
Increase (decrease) in amount due to City of Kawartha Lakes	2,531,053	(468,542)
Repayment of long term debt	(519,303)	(611,016)
	2,011,750	(1,079,558)
Increase (decrease) in cash	4,538,300	(28,967)
Cash, beginning of year	1,505,532	1,534,499
Cash, end of year	6,043,832	1,505,532

The accompanying notes are an integral part of the financial statements.

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

1. Nature of business

On December 15, 2005, Kawartha Lakes – Haliburton Housing Corporation (the "Corporation") entered into an amalgamation agreement with Non-Profit Housing Corporation ("NPHC"). Under the terms of the agreement the Corporation and NPHC amalgamated to form a new corporation (also known as Kawartha Lakes – Haliburton Housing Corporation) which commenced operations on January 1, 2006. The corporation is exempt from income taxes under the Income Tax Act. The City (the "City") is the sole shareholder and this corporation is engaged in the business of providing housing primarily for persons of low or modest income at rentals below the median current rental market in the area of the City and the County of Haliburton.

Effective January 1, 2016 the structure of the Corporation was revised to combine three different divisions consisting of Local Housing Corporation ("LHC"), Non Profit ("NP") and Affordable Housing Project ("AHP") into one overall division with the base year subsidy established by taking the 2015 subsidy level and then year over year applying budget directions set by the City. The surplus and capital reserves have been merged into one surplus reserve to fund projects with the City.

2. Significant accounting policies

The financial statements of the Corporation are representations of management prepared in accordance with generally accepted accounting principles for government not-for-profit organizations as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

Accrual basis of presentation

Revenue and expenses are recorded according to the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

Financial instruments

All financial instruments reported on the statement of financial position of the Corporation are measured as follows:

Cash	Fair value
Accounts receivable and other assets	Amortized cost
Investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortised cost

The fair value of investments is determined by the market value of investments. Transaction costs are expensed as incurred. The carrying value of cash, accounts receivable and other assets, accounts payable and accrued liabilities approximate respective fair values due to their relatively short term maturity. The carrying value of long-term debt approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions of similar items.

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

2. Significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives as follows:

	<u>Useful life – years</u>
Land improvements	20–30
Buildings	50
Vehicles	10–15
Equipment	<u>15–20</u>

Annual amortization is charged in the year of acquisition and in the year of disposal. Tangible capital assets under construction are not amortized until the tangible capital asset is in service.

Use of estimates

In preparing financial statements in accordance with Canadian Public Sector Accounting Standards, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Amounts requiring significant estimates include tangible capital assets, accounts payable and accrued liabilities.

3. Tangible capital assets

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
	\$	\$	\$	\$
Land and land improvements	4,149,863	791,259	3,358,604	3,405,882
Buildings	61,131,868	32,511,918	28,619,950	29,334,675
Equipment and vehicles	1,368,832	742,605	626,227	684,844
Work in progress	10,152,066	—	10,152,066	2,732,242
	<u>76,802,629</u>	<u>34,045,782</u>	<u>42,756,847</u>	36,157,643

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

4. Long-term debt

	2018 \$	2017 \$
Non-Profit Housing Provider Stock		
Mortgages		
Mortgage matured on February 2018	—	21,123
1.62%, payable \$15,537 monthly (principal and interest), due February 2023	753,026	937,810
0.96%, payable \$12,811 monthly (principal and interest), due October 2021	392,864	514,964
5.83%, payable \$25,793 monthly (principal and interest), due May 2024	1,947,812	2,139,108
Total debt	3,093,702	3,613,005

Responsibility for the payment of debentures for the Public Stock Debentures was not transferred to the Corporation as part of the devolution of social housing under the Social Housing Reform Act, 2000 (the "Act"). In accordance with the Act the Province of Ontario (the "Province") makes all payments on debentures related to properties transferred to the Corporation by the Act and recovers the outlay by reducing federal subsidy payment cash flows. The debentures bear interest ranging from .096% to 5.83%.

Principal repayments on long-term debt for the Non-Profit Housing Provider stock over the next five years are set out below:

	\$
2019	514,063
2020	531,532
2021	480,426
2022	372,860
2023	387,204
Thereafter	807,617
	3,093,702

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

5. Related party transactions and balances

The City is the sole shareholder of the Corporation. The balance owed to the City is disclosed separately on the statement of financial position. The following table summarizes the Corporation's transactions with related parties in the year:

	2018	2017
	\$	\$
Expenses		
Wages and benefits cost allocation for use of employees of the City of Kawartha Lakes	1,163,540	1,300,984
Property taxes to City of Kawartha Lakes	1,060,896	999,841

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

6. Investments

Investments are marketable securities which are comprised of corporate and government debt securities and investment certificates from chartered banks. The costs presented approximate fair value with investments held in high interest savings portion reported under cash.

	2018	2017
	\$	\$
Unrestricted	—	4,110,150

7. Funding

The funding provided to the Corporation is administered by the City. Some funds originate at the Federal level and are flowed through to the City via the Province for programs covered by the social housing agreement. Federal and Provincial funding that has been earmarked for the Corporation specifically has been reported as grant revenue from the government level that flows funding through the City.

Any operating expenditures in excess of government funding are funded by the City (81%) and the County of Haliburton (19%). Capital expenditures, after application of federal and provincial grants, are funded by the municipality in which the housing unit is located. Municipal funding is administered by the City as service manager for the area.

8. Financial instruments

The Corporation's financial instruments consist of cash, accounts receivable, investments, accounts payable and accrued liabilities and long-term debt. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

9. Expenses by object

	2018	2017
	\$	\$
Administrative salaries	657,548	842,184
Amortization	1,385,018	914,259
Bad debts	52,211	45,910
Insurance	153,020	159,446
Maintenance		
Labour	505,992	458,800
Building and general	539,010	419,043
Heating, plumbing and electrical	129,815	160,500
Other	96,959	67,671
Fleet charge	55,114	21,557
Mortgage interest	203,819	172,219
Municipal taxes	1,060,896	999,841
Other	28,211	14,940
Supplies and services	24,989	32,814
Utilities	1,616,811	1,734,662
Minor capital	155,592	410,274
	6,665,005	6,454,120

10. Accumulated surplus

Accumulated surplus consists of the following:

	2018	2017
	\$	\$
Share capital	1	1
Operating surplus	549,114	427,360
Capital deficit	(3,671,898)	(485,016)
Accrued interest on long term debt	(11,191)	(11,995)
Long term debt	(3,093,702)	(3,613,005)
Reserve and reserve funds	3,221,575	2,791,580
Tangible capital assets	42,756,847	36,157,643
	39,750,746	35,266,568

The Corporation may only issue common shares which are only allowed to be acquired by a related service manager or a related municipality. The Minister of Housing must give written consent for the issuance of shares to any other party. Upon issuance or transfer of the common shares, the service manager (City) must maintain a majority ownership of the issued shares.

The Corporation cannot declare or pay dividends on any issued shares.

Kawartha Lakes – Haliburton Housing Corporation

Notes to the financial statements

December 31, 2018

11. Contingencies and commitments

Various legal actions and claims have been initiated against the Corporation, some of which cannot be quantified. No provision has been made for any uninsured claims. It is management's opinion there will be no material uninsured liability arising from these claims. An expense will be recorded in the fiscal period in which a settlement becomes likely and measurable.

Commitment – water and sewer operating agreements

The Corporation is committed to two agreements with the Ontario Clean Water Agency to operate the water systems for Omcemec and Haliburton housing properties. In addition to fixed annual charges adjusted for inflation, the Corporation must pay for capital upgrades and unusual maintenance necessary to meet legislative requirements. The agreement is for a five year period from June 27, 2016 to June 26, 2021.

Commitment – elevator agreement

The Corporation is committed to an agreement with ThyssenKrupp Elevator (Canada) Ltd. to provide maintenance and inspection work for all elevator systems. The agreement is for a five year period from September 2018 to September 2023 for a total cost of \$19,656 per year with an annual CPI% increase not to exceed 3%.

Commitment – water tank agreement

The Corporation is committed to an agreement with Vista Credit to provide hot water tank replacement and maintenance service for a total cost of \$281,431 for a ten year term ending in 2026.

Commitment – capital projects

The Corporation has committed to many capital projects expected to be completed over several years. As at December 31, 2018, the Corporation had awarded contracts in the amount of \$4,291,358 (\$6,588,319 in 2017) and has recorded \$2,928,183 (\$2,139,148 in 2017) of those awarded amounts. Therefore, the remaining contractual commitments will be recorded in future years as the projects are completed.

Funding for the completion costs is expected to include the use of capital surplus carried forward, grants, City and County of Haliburton funding and use of funds from reserves and City debentures.