

Financial Statements

Kitchener Alliance Community Homes Inc.

Hamilton, Ontario

December 31, 2017

DRAFT

We take responsibility for (approve) these financial statements.
In addition, we approve your recommended adjusting and reclassification entries.

DIRECTOR _____

DIRECTOR _____

PLEASE PRINT NAMES ON PAGE 5

THE **DATE** MANAGEMENT TAKES RESPONSIBILITY FOR (APPROVES)
THESE FINANCIAL STATEMENTS _____

DATE OF A.G.M. _____

DATE REQUIRED _____

OF COPIES _____

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Independent Auditors' Report

To the Members of Kitchener Alliance Community Homes Inc. and to the Regional Municipality of Waterloo:

We have audited the accompanying financial statements of Kitchener Alliance Community Homes Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of replacement reserve, accumulated surplus, operations and cash flows for the seven months then ended and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on financial reporting requirements of the Housing Services Act (HSA).

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 requirements of the HSA, 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 the auditor's 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, the auditor considers internal control relevant to the Organization'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 Organization'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.

continued...

Independent Auditors' Report - continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kitchener Alliance Community Homes Inc. as at December 31, 2017 and the results of its operations and its cash flows for the seven months then ended in accordance with the financial reporting requirements of the HSA.

Basis of Accounting and Restriction on Use

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 Kitchener Alliance Community Homes Inc. in complying with the financial reporting requirements referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the members of Kitchener Alliance Community Homes Inc. and the Regional Municipality of Waterloo and should not be used by parties other than the specified users.

Subsequent Event

On January 1, 2018, the Organization amalgamated with Victoria Park Community Homes Inc. The amalgamated Organization will continue as Victoria Park Community Homes Inc.

Comparative Information

The Board of Directors approved a change in the fiscal year end from May 31 to December 31, effective December 31, 2017. This change was implemented to facilitate the amalgamation with Victoria Park Community Homes Inc. The prior year comparative figures reflect the financial position as at May 31, 2017 and the results of operations and cash flows for the year then ended.

Toronto, Ontario
[Date of the auditors' report]

Chartered Professional Accountants, Licensed Public Accountants

Kitchener Alliance Community Homes Inc.

Statement of Financial Position	December 31, 2017	May 31, 2017
		Note 13
Current Assets		
Cash, Note 3	\$ 437,256	\$ 211,482
Accounts receivable		
Tenants (net of allowance 2017 \$20,506, 2016 \$25,842)	28,199	46,905
HST	50,339	75,079
Miscellaneous receivable	220,937	80,590
Prepaid expenses	0	20,138
Total Current	736,731	434,194
Long-Term Investments , Note 3	0	145,362
Capital Assets , Note 5	6,418,703	6,868,058
Reserve Funds , Note 3	832,740	655,126
	7,988,174	8,102,740

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Approved by The Board

Director

Director

Kitchener Alliance Community Homes Inc.

Statement of Financial Position	December 31, 2017	May 31, 2017
		Note 13
Current Liabilities		
Accounts payable and accrued liabilities	\$ 163,169	\$ 92,015
Due to Regional Municipality of Waterloo, Note 4	126,713	59,536
Accrued mortgage payment	80,830	80,830
Tenants' deposits	57,528	58,824
Prepaid rent	7,624	10,441
	435,864	301,646
Mortgages Payable , Note 6	6,418,703	6,868,058
	6,854,567	7,169,704
Contingencies , Note 11		
Net Assets		
<i>Restricted</i>		
Replacement reserve, per statement, Note 7	832,740	655,126
<i>Unrestricted</i>		
Accumulated surplus, per statement	300,867	277,910
	1,133,607	933,036
	7,988,174	8,102,740

The notes on pages 11 through 18 form an integral part of these financial statements.

Kitchener Alliance Community Homes Inc.

Statement of Replacement Reserve	7 months ended December 31, 2017	Year ended May 31, 2017 Note 13
Balance beginning	\$ 655,126	\$ 751,452
Add (deduct)		
Appropriated from operations	75,085	126,340
Investment income, Note 3	13,771	13,216
SHIP funding, Note 12	11,618	164,280
CHIF funding, Note 12	175,729	0
SHIP expenditures, net of rebates	(11,484)	(164,414)
Rebates on furnaces	12,734	0
Expenditures, Note 8	(99,839)	(235,748)
	0	0
<i>Balance December 31</i>	832,740	655,126

Statement of Accumulated Surplus		
Balance beginning	277,910	229,429
Add		
Surplus	22,957	48,481
<i>Balance December 31</i>	300,867	277,910

Kitchener Alliance Community Homes Inc.

Statement of Operations	7 months ended December 31, 2017	Year ended May 31, 2017 <u>Note 13</u>
Revenues		
Rental charges	\$ 709,409	\$ 1,218,256
Government subsidies	734,744	1,287,546
Vacancy loss	(17,955)	(20,680)
Other revenue, Note 10	1,215	6,203
Total Revenues	1,427,413	2,491,325
Expenses		
Materials and services, schedule 1	225,711	346,961
Utilities, schedule 2	103,881	186,188
Administrative overhead, schedule 3	164,258	277,221
Bad debts	8,341	26,910
Insurance	28,208	47,985
Interest	116,028	216,478
Amortization	449,355	753,531
Municipal taxes	233,589	461,719
Replacement reserve	75,085	126,340
Total Expenses	1,404,456	2,443,333
Surplus Before Prior Year Subsidy Adjustment	22,957	47,992
Prior year's subsidy adjustment, Note 4	0	489
Surplus	22,957	48,481

Kitchener Alliance Community Homes Inc.

Schedule of Expenses	7 months ended December 31, 2017	Year ended May 31, 2017
		Note 13
Schedule 1 - Materials and Services		
Building and equipment	\$ 46,838	\$ 76,591
Roofing	2,096	2,044
Maintenance electrical and appliances	10,027	16,826
Plumbing and sewer	32,701	48,677
Landscaping	32,414	41,435
Painting	21,235	33,050
Garbage waste	12,997	27,157
Security	6,774	3,818
Snow removal	14,812	37,642
Janitorial cleaning	11,588	5,055
Pest control	6,730	12,389
HVAC	5,145	9,065
Leased equipment	20,081	30,854
Other	2,273	2,358
	225,711	346,961
 Schedule 2 - Utilities		
Electricity	7,795	15,173
Fuel	140	3,505
Water and sewage	95,946	167,510
	103,881	186,188
 Schedule 3 - Administrative Overhead		
Salaries and benefits	79,246	135,148
Management fees, Note 9	71,641	120,953
Legal	3,859	1,060
Audit	5,182	15,466
Telephone	1,934	2,574
Committees	1,875	1,536
Bank charges and credit checks	521	484
	164,258	277,221

Kitchener Alliance Community Homes Inc.

Statement of Cash Flows	7 months ended December 31, 2017	Year ended May 31, 2017
		Note 13
Operating Activities		
Surplus	\$ 22,957	\$ 48,481
Non-cash items		
Amortization	449,355	753,531
Appropriation to replacement reserve	75,085	126,340
	547,397	928,352
Net change in non-cash working capital	233,184	(330,897)
<i>Cash Provided By Operating Activities</i>	780,581	597,455
Investing Activities		
Capital expenditures	(111,323)	(400,162)
Decrease (increase) in investments	(32,252)	(16,116)
Investment income earned in reserve	13,771	13,216
<i>Cash Used In Investing Activities</i>	(129,804)	(403,062)
Financing Activities		
Principal portion of mortgage payments	(449,355)	(753,531)
SHIP and funding	11,618	164,280
Rebates on furnaces	12,734	0
<i>Cash Used In Financing Activities</i>	(425,003)	(589,251)
Net cash increase (decrease) during the year	225,774	(394,858)
Cash position beginning of year	211,482	606,340
<i>Cash Position End of Year</i>	437,256	211,482

Notes to Financial Statements

Status and Nature of Activities

The Organization was incorporated on August 15, 1986 under Part III of The Business Corporations Act as a corporation without share capital to provide subsidized housing.

The Organization claims an exemption from income tax under section 149(1)(l) of the Income Tax Act as a corporation operating exclusively for social welfare. No portion of the Organization's income is available for the personal benefit of any tenant.

In accordance with the Housing Services Act (HSA), the Organization receives funding from the Region of Waterloo (Region of Waterloo) and provides subsidized housing to its tenants and their families. The Organization is dependent on this funding for its continued operation.

Note 1

Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the financial reporting framework prescribed by the HSA and the Region of Waterloo. This framework requires the financial statements to be prepared in accordance with Canadian accounting standards for Not-for-Profit Organizations subject to the following significant exceptions:

- (a) amortization of capital assets includes amortization of land and is equal to the principal repaid on the mortgage rather than on the useful lives of the related assets; in determining principal repaid an accrual must be made for the amount of principal to be repaid on the first day following the Organization's year-end;
- (b) capital expenditures may be charged to the replacement reserve rather than capitalized and amortized over their estimated useful lives;
- (c) a replacement reserve is appropriated from operations;
- (d) investment income earned on replacement reserve funds is credited directly to the reserve rather than to operations;
- (e) long-term debt is not segregated between current and long-term on the statement of financial position;
- (f) unrealized gains and losses on investments are not recorded;
- (g) government grants received are credited directly to revenue and appropriated to the replacement reserve rather than recorded as a deferred contribution related to capital assets and amortized over the estimated useful life of the related capital asset.

Note 1 Significant Accounting Policies - continued

Revenue Recognition

Rental charges are recognized when due at the beginning of each month. Government subsidies are recognized using the deferral method of accounting for contributions.

Parking revenue is recognized at the beginning of the period during which the right to use the space is provided.

Investment income includes interest from cash and fixed income investments and realized gains and losses on the disposition of investments. Revenue is recognized on an accrual basis. Interest from fixed income investments is recognized over the term of these investments using the effective interest method.

Financial Instruments

(a) Measurement of Financial Instruments

The Organization initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable, amounts due to tenants and long-term debt.

(b) Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in surplus. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

Note 1 Significant Accounting Policies - continued

Use of Estimates

The preparation of financial statements requires management to make assumptions about future events 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 2 Financial Instruments

Risk Management Policy

The Organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at December 31, 2017:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss.

The Organization is also subject to concentrations of credit risk through its accounts receivable. Rent is due on the first day of the month. Tenants receivable represent rent that are at least one month past due. The credit risk associated with receivables from current tenants is offset somewhat by the Organization holding deposits for each tenant.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates. These fluctuations may be significant. The methods and assumptions management uses when assessing market risks have not changed substantially from the prior period and are summarized below:

Interest Rate Risk

The Organization does not have any interest bearing investments.

The mortgages bear fixed interest rates.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization is exposed to this risk mainly in respect of its long-term debt. This risk is reduced because of considerable sums invested in mutual funds.

Kitchener Alliance Community Homes Inc.

December 31, 2017

Note 3 **Cash, Investments and Reserve Funds**

	December 31, 2017	May 31, 2017
Cash		
Operating current account	\$ 455,736	\$ 211,482
Long-Term Investments		
Social housing mutual funds	814,260	800,488
	1,269,996	1,011,970
Composed of:		
Cash	437,256	211,482
Long-term investments	0	145,362
Amount required to fund reserve - restricted	832,740	655,126
	1,269,996	1,011,970
Investment income includes:		
Interest	13,771	16,117
Allocated as follows:		
Replacement reserve	13,771	13,216
Operations	0	2,901
	13,771	16,117

Note 4 **Due to the Region of Waterloo**

The Organization receives subsidies based on formulae contained in the HSA. Subsidies are adjusted at year-end for variances between actual and estimated amounts. The difference is receivable from (or payable to) the Region of Waterloo. The current year payable is subject to adjustment.

All fiscal years up to and including the period ended May 31, 2016 have been reconciled.

Note 5 **Capital Assets**

	December 31, 2017	May 31, 2017
At cost		
Land and buildings	\$ 16,844,259	\$ 16,844,259
Accumulated amortization	(10,425,556)	(9,976,201)
	6,418,703	6,868,058

Kitchener Alliance Community Homes Inc.

December 31, 2017

Note 6

Mortgages Payable

	December 31, 2017	May 31, 2017
Greenfield Mews, mortgage loan with TD Canada Trust, interest at 1.836%, maturing May 1, 2018. Amortization period of 9 years and 10 months with monthly principal and interest payments of \$23,452. \$	1,407,763	\$ 1,556,006
Westmount Lanse, mortgage loan with Canada Mortgage and Housing Corporation, interest at 0.96%, maturing June 1, 2024. Amortization period of 7 years and 9 months with monthly principal and interest payments of \$10,966.	828,955	900,832
Trinity Squares, mortgage loan with Canada Mortgage and Housing Corporation, interest at 3.51%, maturing November 1, 2024. Amortization period of 14 years and 9 months with monthly principal and interest payments of \$12,679.	933,702	1,002,574
Struewing Place, mortgage loan with RBC Royal Bank, interest at 4.9053%, maturing June 1, 2018. Amortization period of 24 years with monthly principal and interest payments of \$21,910.	2,011,415	2,106,264
Pine Grove, mortgage loan with Peoples Trust Company, interest at 2.330%, maturing September 1, 2025. Amortization period of 12 years with monthly principal and interest payments of \$11,822.	1,236,868	1,302,382
	<u>6,418,703</u>	<u>6,868,058</u>
Principal to be paid in coming year	<u>786,953</u>	<u>773,236</u>

Principal payments due in the next five years are approximately as follows:

2018	\$	786,953
2019		808,278
2020		830,335
2021		853,152
2022		876,759

Note 7

Restrictions on Net Assets

The replacement reserve is externally restricted by the Region of Waterloo. These funds can only be used for capital expenditures approved by the Region of Waterloo.

Kitchener Alliance Community Homes Inc.

December 31, 2017

Note 8 Reserve Expenditures

Expenditures charged to the replacement reserve are as follows:

	7 months ended December 31, 2017	Year ended May 31, 2017
Building interior	\$ 52,545	\$ 110,645
Roofing	24,456	0
Appliances	7,048	10,062
Hazardous substance	5,080	0
Sitework	4,479	5,219
Mechanical systems	2,912	71,261
Electrical systems	2,174	5,438
Closures	1,145	0
Plumbing	0	26,482
Building exterior	0	3,392
Structure	0	3,249
	<u>99,839</u>	<u>235,748</u>

Note 9 Related Party Transactions

Victoria Park Community Homes Management Project

KACHI has an agreement with Victoria Park Community Homes Management Project (Victoria Park) for the property management of all five properties. The Board of Directors of KACHI is made up entirely of directors also sitting on the Victoria Park Board. The following fees were paid to Victoria Park during the year, management fees of \$71,641 (2017 - \$120,953) and resident managers' salaries \$41,516 (2017 - \$71,380). Included in accounts payable and accrued liabilities is \$29,191 (2017 - \$7,099).

Victoria Park Community Homes Inc.

The Board of Directors of KACHI is made up entirely of directors also sitting on the Victoria Park Community Homes Inc. Board. There are no related parties transactions during the year. Included in accounts receivable is \$5,995 (2017 - \$0) amount receivable from Victoria Park Community Homes Inc..

Kitchener Alliance Community Homes Inc.

December 31, 2017

Note 10 Other Revenue

Other revenue is comprised of the following:

	7 months ended December 31, 2017	Year ended May 31, 2017
		Note 13
Parking	\$ 1,215	\$ 3,202
Interest	0	2,901
Miscellaneous	0	100
	<u>1,215</u>	<u>6,203</u>

Note 11 Contingent Liabilities

The Organization received funding from the Region of Waterloo through the Social Housing Renovation & Retrofit Program (SHRRP) in the amount of \$650,256. The Organization agreed to continue to operate as an affordable housing project for (20) twenty years as a condition of the agreement. Failure to comply with the rules set out in the agreement may result in the entire funding amount (including interest) becoming due and payable to the Region of Waterloo.

The Organization signed an agreement with the Region of Waterloo dated December 8, 2016, whereby the Organization was approved to receive funding of \$175,898 through the Social Housing Improvement Program (SHIP). The Organization agreed to continue to operate as an affordable housing project for (20) twenty years from the date of the agreement. Failure to comply with the rules set out in the agreement may result in the entire funding amount (including interest) becoming due and payable to the Region of Waterloo. The full amount of \$175,898 has been recorded in the replacement reserve.

The Organization signed an agreement with the Region of Waterloo dated December 31, 2017, whereby the Organization was approved to receive funding of \$175,729 through the Community Housing Investment Fund (CHIF). The Organization agreed to continue to operate as an affordable housing project for (20) twenty years from the date of the agreement. Failure to comply with the rules set out in the agreement may result in the entire funding amount (including interest) becoming due and payable to the Region of Waterloo. The full amount of \$175,729 has been recorded in the replacement reserve.

Note 12 Social Housing Improvement Program (SHIP) and Community Housing Investment Fund (CHIF)

In the prior year, the Organization signed an agreement with the Region of Waterloo to receive funding of \$175,898 under the SHIP. The amount of \$164,280 was recorded in the prior year financial statements. The remaining balance of \$11,618 was received during the year and is recorded in the replacement reserve.

During the year, the Organization signed an agreement with the Region of Waterloo to receive funding of \$175,729 under the CHIF to carry out capital repairs. The amount of \$175,729 is included in accounts receivable at year-end and has been reflected in these financial statements.

Note 13 Fiscal Year End

The Board of Directors approved a change in the fiscal year end from May 31 to December 31, effective December 31, 2017. This change was implemented to facilitate the amalgamation with Victoria Park Community Homes Inc. The prior year comparative numbers reflect the financial position as at May 31, 2017 and the the results of its operations and its cash flows for the year from June 1, 2016 to May 31, 2017.

Note 14 Subsequent Event

On January 1, 2018, the Organization amalgamated with Victoria Park Community Homes Inc. The amalgamated Organization will continue as Victoria Park Community Homes Inc. The Board of Directors of KACHI was made up entirely of directors also sitting on the Victoria Park Community Homes Inc. Board.

Kitchener Alliance Community Homes Inc.

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Year End: December 31, 2017

Client's adjusting entries

Date: 01/06/2017 To 31/12/2017

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
AJE01	30/12/2017	SUBSIDY PAYABLE M.M.A.H.	2115-110	D1			67,177.00		
AJE01	30/12/2017	CURRENT YEAR SUBSIDY ADJUSTMEN	3400-125	D1		67,177.00			
		To post AIR estimate for fiscal 2017 as provided by client							
						67,177.00	67,177.00		
Net Income (Loss)			22,954.35						

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Kitchener Alliance Community Homes Inc.

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Year End: December 31, 2017

Client's reclassifying journal entries

Date: 01/06/2017 To 31/12/2017

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence	Misstatement
		Net Income (Loss) Before Adjustments					22,954.35			
					0.00	0.00	22,954.35	0.00		

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