

Financial Statements of

**KINGSTON & FRONTENAC
HOUSING CORPORATION**

Year ended December 31, 2018

KINGSTON & FRONTENAC HOUSING CORPORATION

Financial Statements

Year ended December 31, 2018

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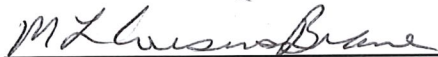
Management's Responsibility for the Financial Statements

The accompanying financial statements of Kingston & Frontenac Housing Corporation (the "Corporation") are the responsibility of the Corporation's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the Corporation. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.



Mary Lynn Cousins Brame
Chief Executive Officer



Dan Song
Finance & Administration Manager



INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of Kingston & Frontenac Housing Corporation

Opinion

We have audited the financial statements of Kingston & Frontenac Housing Corporation (the Corporation), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and accumulated surplus for the year then ended
- the statement of change in net financial debt 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 Corporation as at December 31, 2018, and its results of operations, changes in net financial 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. 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 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 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 the 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 the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 these 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 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 the 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 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 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.
- 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

Kingston, Canada

April 29, 2019

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Current assets:		
Cash	\$ 2,108,635	\$ 3,437,880
Rents receivable	33,493	23,871
Other receivables	500,126	996,857
	<u>2,642,254</u>	<u>4,458,608</u>
Long-term investments (notes 2, 4 and 5)	1,136,097	1,001,865
	<u>3,778,351</u>	<u>5,460,473</u>
Financial liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	1,578,161	904,366
Accrued payroll and employee benefits	172,358	116,934
Current portion of long-term debt (note 3)	239,017	228,265
Prepaid rents	210,748	169,262
Deferred revenue	48,834	44,468
Subsidy paid in advance	611,975	660,313
Payable to the Corporation of the City of Kingston (note 6)	619,078	295,946
	<u>3,480,171</u>	<u>2,419,554</u>
Long-term debt (note 3)	5,769,382	6,008,399
	<u>9,249,553</u>	<u>8,427,953</u>
Net financial debt	<u>(5,471,202)</u>	<u>(2,967,480)</u>
Non-financial assets:		
Tangible capital assets (note 12)	51,982,050	47,581,696
Prepaid expenses	267,734	246,536
	<u>52,249,784</u>	<u>47,828,232</u>
Contingent liabilities (notes 6 and 10)		
Subsequent event (note 17)		
Accumulated surplus	<u>\$ 46,778,582</u>	<u>\$ 44,860,752</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Operations and Accumulated Surplus

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

	2018 Budget (note 8)	2018 Total	2017 Total
Revenue:			
Local housing subsidy (note 13)	\$ 4,634,082	\$ 4,351,943	\$ 4,525,301
Rents	3,548,970	3,706,049	3,556,786
Rent supplement	3,224,148	2,987,846	3,033,299
Homelessness supplement	466,805	471,645	477,920
Province of Ontario grant	168,000	167,945	167,945
Non-rental revenue	157,338	177,815	233,688
Government grants	—	2,570	180,355
Management fees (note 15)	—	188,305	—
Interest income	18,800	69,221	49,680
	12,218,143	12,123,339	12,224,974
Expenses:			
Rent supplement program costs	3,690,953	3,459,491	3,511,219
Salaries and benefits	1,923,575	1,870,645	1,888,239
Municipal taxes	1,760,262	1,764,009	1,733,636
Maintenance expense	999,207	803,152	909,963
Utilities	1,046,727	859,546	876,349
Capital expenses	1,384,039	1,132,582	1,181,866
Amounts recognized as tangible capital assets	—	(915,745)	(977,171)
Professional services	129,004	314,040	293,031
Management expenses (note 15)	—	186,213	—
Interest	320,486	288,078	298,177
Insurance	246,767	255,954	286,287
Administration services and expenses	163,627	170,294	160,927
Bad debts	32,392	28,070	33,197
	11,697,039	10,216,329	10,195,720
Excess of revenue over expenses before the undernoted items	521,104	1,907,010	2,029,254
Amortization expense	460,372	1,627,413	1,574,014
Capital government grants (note 14)	—	(1,638,233)	(1,703,010)
	460,372	(10,820)	(128,996)
Annual surplus	60,732	1,917,830	2,158,250
Accumulated surplus, beginning of year		44,860,752	42,702,502
Accumulated surplus, end of year (schedules 1 and 2)		\$ 46,778,582	\$ 44,860,752

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Change in Net Financial Debt

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

	2018	2017
Annual surplus	\$ 1,917,830	\$ 2,158,250
Acquisition of tangible capital assets	(6,027,767)	(2,736,703)
Amortization of tangible capital assets	1,627,413	1,574,014
Change in prepaid expenses	(21,198)	(26,323)
Net change in net financial assets	(2,503,722)	969,238
Net financial debt, beginning of year	(2,967,480)	(3,936,718)
Net financial debt, end of year	\$ (5,471,202)	\$ (2,967,480)

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 1,917,830	\$ 2,158,250
Amortization, which does not involve cash	1,627,413	1,574,014
	3,545,243	3,732,264
Change in non-cash assets and liabilities:		
Rents receivable	(9,622)	(13,526)
Other receivables	496,731	(533,196)
Prepaid expenses	(21,198)	(26,323)
Accounts payable and accrued liabilities	673,795	292,623
Accrued payroll and employee benefits	55,424	(35,561)
Prepaid rents	41,486	(11,760)
Deferred revenue	4,366	(1,035)
Subsidy paid in advance	(48,338)	(18,052)
Payable to the Corporation of the City of Kingston	323,132	232,689
	1,515,776	(114,141)
	5,061,019	3,618,123
Capital activities:		
Cash used to acquire tangible capital assets	(6,027,767)	(2,736,703)
Financing activities:		
Principal repayment of long-term debt	(228,265)	(218,014)
Investing activities:		
Decrease (increase) in long-term investments	(134,232)	375,961
Increase (decrease) in cash	(1,329,245)	1,039,367
Cash, beginning of year	3,437,880	2,398,513
Cash, end of year	\$ 2,108,635	\$ 3,437,880

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2018

Kingston & Frontenac Housing Corporation (the "Corporation") was incorporated under the Corporations Act of Ontario on December 14, 2000. Its principal activity is the provision of socially-assisted housing.

These financial statements present the financial position and results of operation of Kingston & Frontenac Housing Corporation, which is a non-profit organization under the Income Tax Act (Canada) and exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Significant accounting policies adopted by the Corporation are as follows:

(a) Basis of accounting:

The Corporation follows the accrual method of accounting for revenue and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Funding arrangements:

Kingston & Frontenac Housing Corporation rent geared to income program is funded primarily by the Corporation of the City of Kingston as Consolidated Municipal Service Manager (the "Service Manager"), in accordance with budget arrangements formerly established by Ministry of Municipal Affairs and Housing and the Corporation of the City of Kingston. These financial statements reflect agreed arrangements approved by the Corporation of the City of Kingston with respect to the year ended December 31, 2018.

(c) Municipal rent geared to income program subsidy revenue:

The rent geared to income program operating subsidy is recognized based on the approved fiscal allocation by the Service Manager, and adjusted for estimated recoveries based on actual expenses incurred during the year. Subsidies may be adjusted by the Service Manager based on an annual reconciliation performed subsequent to year end. Any further adjustments will be recorded in the year of Service Manager approval.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(d) Long-term investments:

Long-term investments are recorded at their fair value. Realized investment income and unrealized gains or losses from the change in fair value are recorded as revenue in the period earned. Fair value is determined at quoted market prices. Transaction costs related to the acquisition of long-term investments are recorded as a reduction of investment income.

(e) Use of estimates:

The preparation of 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 date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(f) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) 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 the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

	Useful Life - Years
Land improvements	30
Buildings and building improvements	15 to 40

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(g) Government transfers:

Government transfers are the transfer of monetary assets or tangible capital assets from other levels of government that are not the result of an exchange transaction and for which there is no expectation of repayment or direct financial return to the transferor in the future.

The Corporation receives government transfers from the federal, provincial and municipal governments to fund operating and capital expenditures. These transfers to the Corporation are recognized as revenues when the transfers are authorized and all of the eligibility criteria, if any, have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for the recipient. Prior to that time, any amounts received, along with restricted interest thereon are recorded as deferred revenue.

2. Long-term investments:

The fair value of long-term investments as at December 31, 2018 is \$1,136,097 (2017 - \$1,001,865), with a portion of this amount relating to the Affordable Housing Project of \$276,692 (2017 - \$229,226).

3. Affordable housing program long-term debt:

	2018	2017
5.421% Mortgage payable in monthly blended instalments of \$29,240, due February 15, 2028	\$ 3,897,139	\$ 4,035,072
3.59% Mortgage payable in monthly blended instalments of \$3,390, due October 15, 2032	443,103	467,408
3.41% Mortgage payable in monthly blended instalments of \$10,345, due December 20, 2036	1,668,157	1,734,184
	6,008,399	6,236,664
Current portion of long-term debt	(239,017)	(228,265)
	\$ 5,769,382	\$ 6,008,399

The minimum scheduled principal repayments are as follows: 2019 - \$239,017; 2020 - \$250,299; 2021 - \$262,135; 2022 - \$274,552; 2023 - \$287,584; and thereafter - \$4,694,812.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Affordable housing program long-term debt (continued):

The mortgages are secured by the following:

- (i) a first charge on the lands and all real and immoveable property located thereon;
- (ii) a first general assignment of leases and rents; and
- (iii) a first general security agreement.

4. Rent geared to income capital reserve fund:

In compliance with the Housing Services Act ("HSA"), sections 27(3) and 124(b), a capital reserve fund is maintained for the purpose of funding major asset repairs and replacement and amounts are allocated to it as provided for in the Corporation's budget. The capital reserve fund cash balances are designated from cash balances available for current operations and interest earned on these funds and interest on reserve fund investments are returned to the capital reserve fund.

	2018	2017
Balance, beginning of year	\$ 858,194	\$ 754,148
Allocation from operations	1,384,036	1,384,036
Capital grant funding	—	180,355
Expenses	(1,343,580)	(1,474,941)
	40,456	89,450
Investment income	—	18,909
Unrealized loss on investments	(2,694)	(4,313)
	(2,694)	14,596
Excess of revenue over expenses	37,762	104,046
Balance, end of year	\$ 895,956	\$ 858,194

Long-term investments in the amount of \$859,406 (2017 - \$772,639) have been designated to support the rent geared to income capital reserve fund and have not been adjusted for year-end outstanding transfers in of \$36,551 (2017 - \$85,555).

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

5. Affordable housing program reserve fund:

Under the terms of the National Housing Act ("NHA") insured mortgage loan to the Corporation, a capital replacement reserve fund was established to ensure funds are available to carry out capital replacements for the affordable housing project. An amount of at least 2.65% of the actual effective annual gross income of the affordable housing component is to be deposited in a segregated bank account identified for its intended purpose. Other transfers from the affordable housing program will be completed upon approval of the Board of Directors.

	2018	2017
Balance, beginning of year	\$ 229,226	\$ 182,882
Net transfer from operations	44,500	44,524
Interest earned	2,966	1,820
Balance, end of year	\$ 276,692	\$ 229,226

6. Municipal subsidy payable/receivable:

Municipal subsidy revenue is subject to review by the Service Manager after the financial statements and annual reporting requirements have been submitted for the year, however, an estimate of subsidy to be recovered/paid is reported as a payable to/receivable from the Service Manager at year end based on actual expenses incurred during the year.

Revenue, municipal subsidy receivable/payable and operating surplus may change depending upon final review and approval by the Service Manager. Any additional year end adjustment resulting from this review will be reflected in the year of Service Manager approval.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

6. Municipal subsidy payable/receivable (continued):

An amount payable to the Corporation of the City of Kingston of \$619,078 (2017 - \$295,946) has been reported on the Statement of Financial Position with respect to an estimate of the balance of subsidy revenue to be paid to the Service Manager as follows:

	Operating	Rent Supplement	2018	2017
Subsidy advances received	\$ 4,634,081	\$ 3,507,041	\$ 8,141,122	\$ 8,322,681
Allowable expenses	4,351,943	3,459,491	7,811,434	8,036,521
Payable to the Corporation of the City of Kingston	282,138	47,550	329,688	286,160
Prior year payment of subsidy	(6,556)	—	(6,556)	(53,471)
Beginning balance of subsidy payable	255,384	40,562	295,946	63,257
Ending balance of subsidy payable	\$ 530,966	\$ 88,112	\$ 619,078	\$ 295,946

7. Line of credit:

In 2017, the Corporation signed a revolving demand credit facility agreement for up to \$1,500,000, at the lender's prime rate, secured by a first charge on the lands and improvements located at 1130 Montreal Street, Kingston, Ontario to finance general operating requirements.

As at December 31, 2018 this amount was undrawn (2017 - undrawn) and \$Nil interest expense (2017 - \$Nil) was recorded.

8. Budget figures:

The Corporation reviews the operating and capital budgets annually. The budget figures are reflected in the Statement of Operations and Accumulated Surplus.

Approved budget figures have been reclassified and adjusted for the purposes of these financial statements to comply with Public Sector Accounting Board ("PSAB") reporting requirements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

9. Pension agreements:

The Corporation makes contributions to the Ontario Municipal Employees Retirement System Pension Fund (OMERS) which is a multi-employer plan, on behalf of 24 members of its staff. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Since any surpluses or deficits are a joint responsibility of all Ontario employers and their employees, the Corporation does not recognize any share of the OMERS pension surplus or deficit in these financial statements.

The amount contributed to OMERS for 2018 was \$127,092 (2017 - \$128,220) for current service and is included as an expense on the Statement of Operations and Accumulated Surplus.

10. Contingent liabilities:

- (a) The nature of the Corporation's activities is such that there may be litigation pending or in prospect at any time. With respect to claims as at December 31, 2018, management believes that the Corporation has valid defences and appropriate insurance coverage in place. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material effect on the Corporation's financial position.
- (b) In 2006 the Corporation entered into a contribution agreement with the Minister of Municipal Affairs and Housing ("the Minister") for the funding of an affordable housing capital project located at Van Order Drive, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Minister the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be fully forgiven on the last day of the month at the end of the term of the loan, provided the Corporation has fulfilled all the requirements of the agreement. The full amount of the loan will be forgiven March 31, 2028. The loan proceeds of \$1,372,000 were recorded as grant revenue when received and the loan amount is not recorded in these financial statements.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Minister.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Contingent liabilities (continued):

- (c) In 2011 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Queen Mary Road, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one thirty-fifth (1/35) of the original principal amount of \$3,317,468 for each year following occupancy provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2047.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

- (d) In 2015 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Cliff Crescent, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one twentieth (1/20) of the original principal amount of \$697,966 for each year following the first advance provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2036.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Contingent liabilities (continued):

- (e) In 2015 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of ten rent-geared-to-income units in an affordable housing capital project located at Cliff Crescent, Kingston Ontario. This agreement states that on each anniversary date of the first day of the month following the occupancy date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one twentieth (1/20) of the original principal amount of \$1,102,034 for each year following occupancy provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2036.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

- (f) In 2017 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Brock Street, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one thirtieth (1/30) of the original principal amount of \$1,342,500 for each year following the first advance provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2047.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Contingent liabilities (continued):

- (g) In 2017 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of ten rent-geared-to-income units in an affordable housing capital project located at Brock Street, Kingston Ontario. This agreement states that on each anniversary date of the first day of the month following the occupancy date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one twentieth (1/20) of the original principal amount of \$1,157,500 for each year following occupancy provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2038.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

- (h) In 2018 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Cliff Crescent, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one thirtieth (1/30) of the original principal amount of \$1,200,000 for each year following the first advance provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds were recorded as grant revenue when received and the loan amount is not recorded in these financial statements. The loan agreement expires in 2048.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

10. Contingent liabilities (continued):

- (i) In 2018 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Curtis Crescent, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one thirtieth (1/30) of the original principal amount of \$1,500,000 for each year following the first advance provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds have not yet been received.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

- (j) In 2018 the Corporation entered into a contribution agreement with the Corporation of the City of Kingston for the funding of an affordable housing capital project located at Cliff Crescent, Kingston Ontario. This agreement states that on each anniversary date of the interest adjustment date, the Corporation shall pay the Service Manager the amount of interest as calculated on the loan. However, the amount of interest shall be forgiven if the requirements of the agreement are satisfied by the Corporation. The annual interest since inception of the loan has been forgiven and is not recorded in these financial statements.

The contribution agreement also states that the loan shall be forgiven at a rate of one thirtieth (1/30) of the original principal amount of \$1,200,000 for each year following the first advance provided the Corporation has fulfilled all the requirements of the agreement. The loan proceeds have not yet been received.

Any interest or loan payable will be recorded in the financial statements when an event arises resulting in an obligation for the Corporation to pay interest charges or loan proceeds back to the Service Manager.

11. Fair value of financial instruments:

The carrying values of cash, rents receivable, other receivables, accounts payable and accrued liabilities and accrued payroll and employee benefits approximate their fair values due to the expected short term maturity of these instruments.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

11. Fair value of financial instruments (continued):

The carrying value of long-term investments is their fair value.

The fair value of amounts payable to the Corporation of the City of Kingston cannot be determined in the absence of current market comparables due to the non-arms' length nature of the arrangement.

The fair value of the long-term debt cannot be determined due to the special nature of the underlying security and the absence of market comparables.

12. Tangible capital assets:

(a) Assets under construction:

The balance of assets under construction in 2018 is \$6,780,962 (2017 - \$1,668,940).

(b) Cost:

Cost	Balance December 31, 2017	Additions	Dispositions	Balance December 31, 2018
Land - Rent Geared to Income	\$ 9,919,260	\$ —	\$ —	\$ 9,919,260
Land - Queen Mary Road	180,000	—	—	180,000
Land - Van Order Drive	342,000	—	—	342,000
Land - Cliff Crescent	52,964	—	—	52,964
Land improvement - 2,078,820 Rent Geared to Income	2,078,820	—	—	2,078,820
Land improvement - 114,950 Queen Mary Road	114,950	—	—	114,950
Land improvement - 120,630 Van Order Drive	120,630	—	—	120,630
Land improvement - 141,600 Cliff Crescent	141,600	—	—	141,600
Building - Rent Geared to Income	32,508,313	915,745	—	33,424,058
Building - Queen Mary Road	4,496,149	—	—	4,496,149
Building - Van Order Drive	7,400,877	—	—	7,400,877
Building - Cliff Crescent	4,496,072	—	—	4,496,072
Assets under construction	1,668,940	5,112,022	—	6,780,962
	\$ 63,520,575	\$ 6,027,767	\$ —	\$ 69,548,342

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

12. Tangible capital assets (continued):

(c) Accumulated amortization:

Accumulated amortization	Balance December 31, 2017	Disposals	Amortization	Balance December 31, 2018
Land improvement - Rent Geared to Income	\$ 856,119	—	\$ 70,700	\$ 926,819
Land improvement - Queen Mary Road	20,757	—	3,832	24,589
Land improvement - Van Order Drive	40,210	—	4,021	44,231
Land improvement - Cliff Crescent	6,687	—	4,720	11,407
Building - Rent Geared to Income	12,347,845	—	1,135,099	13,482,944
Building - Queen Mary Road	610,115	—	112,404	722,519
Building - Van Order Drive	1,897,910	—	184,235	2,082,145
Building - Cliff Crescent	159,236	—	112,402	271,638
	\$ 15,938,879	\$ —	\$ 1,627,413	\$ 17,566,292

(d) Net book value:

	Net book value December 31, 2017	Net book value December 31, 2018
Land - Rent Geared to Income	\$ 9,919,260	\$ 9,919,260
Land - Queen Mary Road	180,000	180,000
Land - Van Order Drive	342,000	342,000
Land - Cliff Crescent	52,964	52,964
Land improvement - Rent Geared to Income	1,222,701	1,152,001
Land improvement - Queen Mary Road	94,193	90,361
Land improvement - Van Order Drive	80,420	76,399
Land improvement - Cliff Crescent	134,913	130,193
Building - Rent Geared to Income	20,160,468	19,941,114
Building - Queen Mary Road	3,886,034	3,773,630
Building - Van Order Drive	5,502,967	5,318,732
Building - Cliff Crescent	4,336,836	4,224,434
Assets under construction	1,668,940	6,780,962
	\$ 47,581,696	\$ 51,982,050

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

13. Local housing subsidy:

Rent supplement administration subsidy of \$173,827 (2017 - \$171,461) received from the Corporation of the City of Kingston was included with the local housing subsidy on the Statement of Operations and Accumulated Surplus.

14. Construction of 645 Brock Street, 28 Cliff Crescent, 1 Curtis Crescent and 20 Cliff Crescent Street, located in Kingston, Ontario:

- (a) In 2017, the Corporation commenced construction of a new affordable housing building located at 645 Brock Street. The Corporation of the City of Kingston agreed to provide the Corporation with aggregate funding of \$2,500,000 in this regard of which \$537,000 (2017 - \$1,646,045) was recorded in the year and is included on the Statement of Operations and Accumulated Surplus.

In addition, in 2017, the Corporation entered into a Seed Funding Contribution Agreement with Canada Mortgage and Housing Corporation in the amount of \$42,990 related to 645 Brock Street, which was included on the 2017 statement of operations and accumulated surplus.

- (b) In 2018, the Corporation commenced construction of a new rent geared to income building located at 28 Cliff Crescent. The Corporation of the City of Kingston agreed to provide the Corporation with aggregate funding of \$1,200,000 in this regard of which \$1,021,233 (2017 - \$Nil) was recorded in the year and is included on the Statement of Operations and Accumulated Surplus.

In addition, in 2018, the Corporation entered into a Seed Funding Contribution Agreement with The Corporation of the City of Kingston in the amount of \$50,000 related to 28 Cliff Crescent, which is included on the statement of operations and accumulated surplus.

- (c) In 2018, the Corporation entered into an agreement with The Corporation of the City of Kingston to construct a new affordable housing building located at 1 Curtis Crescent. The Corporation of the City of Kingston agreed to provide the Corporation with aggregate funding of \$1,500,000 in this regard of which \$Nil was received during the year. Construction has not yet commenced on this building.

In 2018, the Corporation entered into a Seed Funding Contribution Agreement with The Corporation of the City of Kingston in the amount of \$30,000 related to 1 Curtis Crescent which is included on the statement of operations and accumulated surplus.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

14. Construction of 645 Brock Street, 28 Cliff Crescent, 1 Curtis Crescent and 20 Cliff Crescent Street, located in Kingston, Ontario (continued):

- (d) In 2018, the Corporation entered into an agreement with The Corporation of the City of Kingston to construct a new affordable housing building located at 20 Cliff Crescent. The Corporation of the City of Kingston agreed to provide the Corporation with aggregate funding of \$853,290 in this regard of which \$Nil was received during the year. Construction has not yet commenced on this building.

15. Management fees/expenses:

On November 1, 2018, the Corporation entered into an agreement with Kingston Municipal Non-Profit Housing Corporation to provide management services for maintenance, repair and cleaning services. The amount of management fees received in the year was \$188,305 and is included as a component of revenue on the statement of operations and accumulated surplus. The amount of management expenses incurred in the year was \$186,213 and is included as a component of expenses on the statement of operations and accumulated surplus.

16. Adoption of new accounting policies:

On January 1, 2018, the Corporation adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent assets, and PS 3380 Contractual rights.

The adoption of these standards did not result in an accounting policy change for the Corporation, and did not result in any adjustments to the financial statements as at January 1, 2018.

17. Subsequent event:

On March 26, 2019 the Corporation entered into a mortgage agreement for \$727,851, secured by the property at 28 Cliff Crescent. The mortgage bears interest at 3.48%, is payable in blended installments of \$3,260 and is due March 2049. The current portion of the mortgage payable is \$14,016.

KINGSTON & FRONTENAC HOUSING CORPORATION

Schedule 1 - Rent Geared to Income Program Statement of Operations and Accumulated Surplus

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

	2018 Budget (note 8)	2018 Total	2017 Total
Revenue:			
Rents	\$ 2,638,923	\$ 2,850,619	\$ 2,723,202
Local housing subsidy (note 13)	4,634,082	4,351,943	4,525,301
Rent supplement	3,224,148	2,987,846	3,033,299
Homelessness supplement	466,805	471,645	477,920
Non-rental revenue	128,138	148,495	204,453
Government grants	—	—	180,355
Interest income	10,000	31,781	31,215
	11,102,096	10,842,329	11,175,745
Expenses:			
Rent supplement program costs	3,690,953	3,459,491	3,511,219
Salaries and benefits	1,891,752	1,838,822	1,858,832
Municipal taxes	1,626,182	1,645,507	1,606,841
Capital expenses	1,384,039	1,132,583	1,181,866
Maintenance expense	926,520	751,975	821,761
Utilities	916,986	747,842	767,232
Professional services	246,573	431,609	415,344
Insurance	223,125	232,308	256,871
Administration services and expenses	163,574	169,542	160,390
Bad debts	32,392	28,070	30,732
Amounts recognized as tangible capital assets	—	(915,745)	(977,171)
	11,102,096	9,522,004	9,633,917
Excess of revenue over expenses	—	1,320,325	1,541,828
Amortization expense	—	1,205,800	1,147,247
Annual surplus	—	114,525	394,581
Accumulated surplus, beginning of year		33,750,011	32,827,990
Transfer between funds		—	527,440
		33,750,011	33,355,430
Accumulated surplus, end of year		\$ 33,864,536	\$ 33,750,011
Analyzed as follows:			
Operating surplus (including 100 common shares for \$10)		\$ 1,849,195	\$ 1,386,906
Invested in tangible capital assets		31,119,385	31,504,911
Reserve Fund (note 4)		895,956	858,194
Accumulated surplus, end of year		\$ 33,864,536	\$ 33,750,011

KINGSTON & FRONTENAC HOUSING CORPORATION

Schedule 2 - Affordable Housing Program Statement of Operations and Accumulated Surplus

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

	2018 Budget (note 8)	2018 Total	2017 Total
Revenue:			
Rents	\$ 910,047	\$ 855,430	\$ 833,584
Province of Ontario grant	168,000	167,945	167,945
Non-residential rents	126,886	126,886	125,160
Interest income	8,800	37,440	18,465
Government grants	—	2,570	—
Non-rental revenue	29,200	29,320	29,235
	1,242,933	1,219,591	1,174,389
Expenses:			
Interest costs	320,486	288,078	298,177
Utilities	129,741	111,703	109,118
Municipal taxes	134,080	118,502	126,794
Maintenance expense	72,687	51,177	88,202
Salaries and benefits	31,823	31,823	29,407
Insurance	23,642	23,646	29,416
Professional services	9,317	9,317	2,847
Administration services and expenses	53	752	536
Bad debts	—	—	2,466
	721,829	634,998	686,963
Excess of revenue over expenses	521,104	584,593	487,426
Amortization expense		421,613	426,767
Capital government grants (note 14)		(1,638,233)	(1,703,010)
		(1,216,620)	(1,276,243)
Annual surplus		1,801,213	1,763,669
Accumulated surplus, beginning of year		11,110,739	9,874,510
Transfer between funds		—	(527,440)
		11,110,739	9,347,070
Accumulated surplus, end of year		\$ 12,911,952	\$ 11,110,739
Analyzed as follows:			
Operating surplus (deficit)		\$ (2,887,676)	\$ 402,734
Invested in tangible capital assets:			
Tangible capital assets		20,862,665	16,076,785
Long-term debt		(6,008,399)	(6,236,664)
Capital financing		668,670	638,658
		12,635,260	10,881,513
Reserve Fund (note 5)		276,692	229,226
		\$ 12,911,952	\$ 11,110,739