

Financial Statements of

**KINGSTON & FRONTENAC
HOUSING CORPORATION**

Year ended December 31, 2017

KINGSTON & FRONTENAC HOUSING CORPORATION

Financial Statements

Year ended December 31, 2017

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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



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Kingston & Frontenac Housing Corporation, which comprise the statement of financial position as at December 31, 2017, the statements of operations and accumulated surplus, change in net financial debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

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 our 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, we consider internal control relevant to the entity'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 entity'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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kingston & Frontenac Housing Corporation as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

March 26, 2018

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Current assets:		
Cash	\$ 3,437,880	\$ 2,398,513
Rents receivable	23,871	10,345
Other receivables	996,857	463,661
	<u>4,458,608</u>	<u>2,872,519</u>
Long-term investments (notes 2, 4 and 5)	1,001,865	1,377,826
	<u>5,460,473</u>	<u>4,250,345</u>
Financial liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	904,366	611,743
Accrued payroll and employee benefits	116,934	152,495
Current portion of long-term debt (note 3)	228,265	218,014
Prepaid rents	169,262	181,022
Deferred revenue	44,468	45,503
Subsidy paid in advance	660,313	678,365
Payable to the Corporation of the City of Kingston (note 6)	295,946	63,257
	<u>2,419,554</u>	<u>1,950,399</u>
Long-term debt (note 3)	6,008,399	6,236,664
	<u>8,427,953</u>	<u>8,187,063</u>
Net financial debt	(2,967,480)	(3,936,718)
Non-financial assets:		
Tangible capital assets (note 12)	47,581,696	46,419,007
Prepaid expenses	246,536	220,213
	<u>47,828,232</u>	<u>46,639,220</u>
Contingent liabilities (notes 6 and 10)		
Accumulated surplus	\$ 44,860,752	\$ 42,702,502

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, 2017, with comparative information for 2016

	2017 Budget (note 8)	2017 Total	2016 Total
Revenue:			
Local housing subsidy (note 13)	\$ 4,746,928	\$ 4,525,301	\$ 4,546,959
Rents	3,350,289	3,556,786	3,225,587
Rent supplement	3,224,148	3,033,299	3,097,005
Homelessness supplement	466,805	477,920	466,805
Province of Ontario grant	168,000	167,945	167,945
Non-rental revenue	164,672	233,688	179,663
Government grants	–	180,355	42,791
Interest income	13,724	49,680	41,601
	<u>12,134,566</u>	<u>12,224,974</u>	<u>11,768,356</u>
Expenses:			
Rent supplement program costs	3,690,953	3,511,219	3,563,810
Salaries and benefits	1,857,655	1,888,239	1,816,105
Municipal taxes	1,733,917	1,733,636	1,662,826
Maintenance expense	995,057	909,963	973,268
Utilities	1,157,815	876,349	951,231
Capital expenses	1,384,036	1,181,866	1,808,391
Amounts recognized as tangible capital assets	(1,000,000)	(977,171)	(1,572,471)
Professional services	109,857	293,031	184,875
Interest	290,251	298,177	245,283
Insurance	248,037	286,287	214,359
Administration services and expenses	163,254	160,927	173,649
Bad debts	24,519	33,197	522
	<u>10,655,351</u>	<u>10,195,720</u>	<u>10,021,848</u>
Excess of revenue over expenses	1,479,215	2,029,254	1,746,508
Amortization expense	1,422,096	1,574,014	1,434,607
Subsidy adjustment (note 6)	–	–	38,004
Capital government grants (note 14)	–	(1,703,010)	(192,827)
	<u>1,422,096</u>	<u>(128,996)</u>	<u>1,279,784</u>
Annual surplus	57,119	2,158,250	466,724
Accumulated surplus, beginning of year		42,702,502	42,235,778
Accumulated surplus, end of year (schedules 1 and 2)		<u>\$ 44,860,752</u>	<u>\$ 42,702,502</u>

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Change in Net Financial Debt

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Annual surplus	\$ 2,158,250	\$ 466,724
Acquisition of tangible capital assets	(2,736,703)	(4,050,438)
Amortization of tangible capital assets	1,574,014	1,434,607
Change in prepaid expenses	(26,323)	32,483
Net change in net financial assets	969,238	(2,116,624)
Net financial debt, beginning of year	(3,936,718)	(1,820,094)
Net financial debt, end of year	\$ (2,967,480)	\$ (3,936,718)

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 2,158,250	\$ 466,724
Amortization, which does not involve cash	1,574,014	1,434,607
	<u>3,732,264</u>	<u>1,901,331</u>
Change in non-cash assets and liabilities:		
Rents receivable	(13,526)	85
Other receivables	(533,196)	(180,168)
Prepaid expenses	(26,323)	32,483
Accounts payable and accrued liabilities	292,623	(495,232)
Accrued payroll and employee benefits	(35,561)	23,627
Prepaid rents	(11,760)	26,523
Deferred revenue	(1,035)	344
Subsidy paid in advance	(18,052)	(10,624)
Payable to the Corporation of the City of Kingston	232,689	(44,557)
	<u>(114,141)</u>	<u>(647,519)</u>
	<u>3,618,123</u>	<u>1,253,812</u>
Capital activities:		
Cash used to acquire tangible capital assets	(2,736,703)	(4,050,438)
Financing activities:		
Proceeds of long-term debt	-	1,798,009
Principal repayment of long-term debt	(218,014)	(146,572)
	<u>(218,014)</u>	<u>1,651,437</u>
Investing activities:		
Decrease (increase) in long-term investments	375,961	(62,979)
Increase (decrease) in cash	1,039,367	(1,208,168)
Cash, beginning of year	2,398,513	3,606,681
Cash, end of year	<u>\$ 3,437,880</u>	<u>\$ 2,398,513</u>

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2017

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 Kingston & Frontenac Housing 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, 2017.

(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.

(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.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(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 period. 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.

(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.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(g) Government transfers (continued):

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, 2017 is \$1,001,865 (2016 - \$1,377,826), with a portion of this amount relating to the Affordable Housing Project of \$229,226 (2016 - \$182,882).

3. Affordable housing program long-term debt:

	2017	2016
5.421% Mortgage payable in monthly blended instalments of \$29,240, due February 15, 2028	\$ 4,035,072	\$ 4,165,820
3.59% Mortgage payable in monthly blended instalments of \$3,390, due October 15, 2032	467,408	490,858
3.41% Mortgage payable in monthly blended instalments of \$10,345, due December 20, 2036	1,734,184	1,798,000
	<u>6,236,664</u>	<u>6,454,678</u>
Current portion of long-term debt	(228,265)	(218,014)
	<u>\$ 6,008,399</u>	<u>\$ 6,236,664</u>

The minimum scheduled principal repayments are as follows: 2018 - \$228,265; 2019 - \$239,017; 2020 - \$250,299; 2021 - \$262,135; 2022 - \$274,552; and thereafter - \$4,982,396.

The mortgages are secured by the following:

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

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

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.

	2017	2016
Balance, beginning of year	\$ 754,148	\$ 1,178,210
Allocation from operations	1,384,036	1,371,492
Capital grant funding	180,355	42,791
Expenses	(1,474,941)	(1,855,079)
	89,450	(440,796)
Investment income	18,909	38,112
Unrealized loss on investments	(4,313)	(21,378)
	14,596	16,734
Excess of revenue over expenses (expenses over revenue)	104,046	(424,062)
Balance, end of year	\$ 858,194	\$ 754,148

Long-term investments in the amount of \$772,639 (2016 - \$1,194,944) 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 \$85,555 (2016 - transfers out of \$440,796).

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

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.

	2017	2016
Balance, beginning of year	\$ 182,882	\$ 146,614
Net transfer from operations	44,524	34,834
Interest earned	1,820	1,434
Balance, end of year	\$ 229,226	\$ 182,882

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, 2017

6. Municipal subsidy payable/receivable (continued):

An amount payable to the Corporation of the City of Kingston of \$295,946 (2016 - \$63,257) 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	2017	2016
Subsidy advances received	\$ 4,746,928	\$ 3,575,753	\$ 8,322,681	\$ 8,117,326
Allowable expenses	4,525,302	3,511,219	8,036,521	8,110,769
Payable to the Corporation of the City of Kingston	221,626	64,534	286,160	6,557
Prior year subsidy adjustment	–	–	–	38,004
Prior year payment of subsidy	(53,471)	–	(53,471)	(89,118)
Beginning balance of subsidy payable (receivable)	87,229	(23,972)	63,257	107,814
Ending balance of subsidy payable	\$ 255,384	\$ 40,562	\$ 295,946	\$ 63,257

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, 2017 this amount was undrawn and \$Nil interest expense 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, 2017

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 2017 was \$128,220 (2016 - \$128,273) 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, 2017, 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, 2017

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, 2017

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 twentieth (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, 2017

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.

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.

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.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

12. Tangible capital assets:

(a) Assets under construction:

The balance of assets under construction in 2017 is \$1,668,940 (2016 - \$132,544).

Cost	Balance December 31, 2016	Additions	Dispositions	Balance December 31, 2017
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	2,078,820	-	-	2,078,820
Land improvement - Queen Mary Road	114,950	-	-	114,950
Land improvement - Van Order Drive	120,630	-	-	120,630
Land improvement - Cliff Crescent	141,600	-	-	141,600
Building - Rent Geared to Income	31,308,006	1,200,307	-	32,508,313
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	132,544	1,583,084	(46,688)	1,668,940
	\$ 60,783,872	\$ 2,783,391	\$ (46,688)	\$ 63,520,575

Accumulated amortization	Balance December 31, 2016	Disposals	Amortization	Balance December 31, 2017
Land improvement - Rent Geared to Income	\$ 785,419	\$ -	\$ 70,700	\$ 856,119
Land improvement - Queen Mary Road	16,925	-	3,832	20,757
Land improvement - Van Order Drive	36,189	-	4,021	40,210
Land improvement - Cliff Crescent	1,967	-	4,720	6,687
Building - Rent Geared to Income	11,271,299	-	1,076,546	12,347,845
Building - Queen Mary Road	497,711	-	112,404	610,115
Building - Van Order Drive	1,708,521	-	189,389	1,897,910
Building - Cliff Crescent	46,834	-	112,402	159,236
	\$ 14,364,865	\$ -	\$ 1,574,014	\$ 15,938,879

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

12. Tangible capital assets (continued):

(b) Tangible capital assets disclosed at nominal values (continued):

	Net book value December 31, 2016	Net book value December 31, 2017
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	1,293,401	1,222,701
Land improvement - Queen Mary Road	98,025	94,193
Land improvement - Van Order Drive	84,441	80,420
Land improvement - Cliff Crescent	139,633	134,913
Building - Rent Geared to Income	20,036,707	20,160,468
Building - Queen Mary Road	3,998,438	3,886,034
Building - Van Order Drive	5,692,356	5,502,967
Building - Cliff Crescent	4,449,238	4,336,836
Assets under construction	132,544	1,668,940
	\$ 46,419,007	\$ 47,581,696

Included in additions is \$223,136 of capital assets purchased through the Social Housing Improvement Program ("SHIP"). SHIP is a capital program that aims to improve and preserve the quality of social housing in Ontario and ensure its long term physical sustainability.

13. Local housing subsidy:

Rent supplement administration subsidy of \$171,461 (2016 - \$168,297) received from the Corporation of the City of Kingston was included with the local housing subsidy on the Statement of Operations and Accumulated Surplus.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

14. Construction of 40 Cliff Crescent and 645 Brock Street, located in Kingston, Ontario:

- (a) In 2015, the Corporation commenced construction of a new affordable housing building located at 40 Cliff Crescent. The Corporation of the City of Kingston agreed to provide the Corporation with aggregate funding of \$1,800,000 in this regard of which \$Nil (2016 - \$192,827) was recorded in the year and is included on the Statement of Operations and Accumulated Surplus.
- (b) 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 \$1,646,045 (2016 - \$Nil) was recorded in the year and is included on the Statement of Operations and Accumulated Surplus.

In addition, 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 is included on the statement of operations and accumulated surplus.

KINGSTON & FRONTENAC HOUSING CORPORATION

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

Year ended December 31, 2017, with comparative information for 2016

	2017 Budget (note 8)	2017 Total	2016 Total
Revenue:			
Rents	\$ 2,536,473	\$ 2,723,202	\$ 2,533,866
Local housing subsidy (note 13)	4,746,928	4,525,301	4,546,959
Rent supplement	3,224,148	3,033,299	3,097,005
Homelessness supplement	466,805	477,920	466,805
Non-rental revenue	137,000	204,453	137,568
Government grants	–	180,355	42,791
Interest income	10,069	31,215	30,683
	11,121,423	11,175,745	10,855,677
Expenses:			
Rent supplement program costs	3,690,953	3,511,219	3,563,810
Salaries and benefits	1,825,832	1,858,832	1,781,261
Municipal taxes	1,605,917	1,606,841	1,571,817
Capital expenses	1,384,036	1,181,866	1,808,391
Maintenance expense	941,523	821,761	924,613
Utilities	1,035,019	767,232	840,634
Professional services	225,699	415,344	295,184
Insurance	226,579	256,871	193,930
Administration services and expenses	161,346	160,390	171,520
Bad debts	24,519	30,732	509
Amounts recognized as tangible capital assets	–	(977,171)	(1,572,471)
	11,121,423	9,633,917	9,579,198
Excess of revenue over expenses	–	1,541,828	1,276,479
Amortization expense	–	1,147,247	1,076,160
Subsidy adjustment	–	–	38,004
	–	1,147,247	1,114,164
Annual surplus	–	394,581	162,315
Accumulated surplus, beginning of year		32,827,992	32,718,641
Transfer to Affordable Housing Program		–	(52,964)
Accumulated surplus, end of year		\$ 33,222,573	\$ 32,827,992
Analyzed as follows:			
Operating surplus (including 100 common shares for \$10)		\$ 859,468	\$ 691,932
Invested in tangible capital assets		31,504,911	31,381,912
Reserve Fund (note 4)		858,194	754,148
Accumulated surplus, end of year		\$ 33,222,573	\$ 32,827,992

KINGSTON & FRONTENAC HOUSING CORPORATION

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

Year ended December 31, 2017, with comparative information for 2016

	2017 Budget (note 8)	2017 Total	2016 Total
Revenue:			
Rents	\$ 813,816	\$ 833,584	\$ 691,721
Province of Ontario grant	168,000	167,945	167,945
Non-residential rents	125,159	125,160	123,309
Interest income	3,655	18,465	10,918
Non-rental revenue	27,672	29,235	42,095
	1,138,302	1,174,389	1,035,988
Expenses:			
Interest costs	290,251	298,177	245,283
Utilities	122,796	109,118	110,597
Municipal taxes	128,000	126,794	91,009
Maintenance expense	53,534	88,202	48,655
Salaries and benefits	31,823	29,407	34,844
Insurance	21,458	29,416	20,429
Professional services	9,317	2,847	13,000
Administration services and expenses	1,908	536	2,129
Bad debts	–	2,466	13
	659,087	686,963	565,959
Excess of revenue over expenses	479,215	487,426	470,029
Amortization expense	422,096	426,767	358,447
Capital government grants (note 14)	–	(1,703,010)	(192,827)
	422,096	(1,276,243)	165,620
Annual surplus	57,119	1,763,669	304,409
Accumulated surplus, beginning of year		9,874,510	9,517,137
Transfer from Rent Geared to Income Program		–	52,964
Accumulated surplus, end of year		\$ 11,638,179	\$ 9,874,510
Analyzed as follows:			
Operating surplus		\$ 930,174	\$ 507,749
Invested in tangible capital assets:			
Tangible capital assets		16,076,785	15,037,095
Long-term debt		(6,236,664)	(6,454,678)
Capital financing		638,658	601,462
		11,408,953	9,691,628
Reserve Fund (note 5)		229,226	182,882
		\$ 11,638,179	\$ 9,874,510