

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2010



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Housing York Inc.

We have audited the accompanying financial statements of Housing York Inc., which comprise the balance sheet as at December 31, 2010, the statements of revenue and expenditures and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with Section 113(2) of the Social Housing Reform Act and guidance in its application issued by the Housing Services Branch of the Regional Municipality of York.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 113(2) of the Social Housing Reform Act and guidance in its application issued by the Housing Services Branch of the Regional Municipality of York, 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.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Housing York Inc. as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Section 113(2) of the Social Housing Reform Act and guidance in its application issued by the Housing Services Branch of the Regional Municipality of York.

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 Housing York Inc. to meet the requirements of Housing Services Branch of the Regional Municipality of York. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Housing York Inc. and Housing Services Branch of the Regional Municipality of York and should not be used by parties other than Housing York Inc. or Housing Services Branch of the Regional Municipality of York.

A handwritten signature in black ink that reads 'KPMG LLP' with a long horizontal line underneath.

Chartered Accountants, Licensed Public Accountants

June 16, 2011
Toronto, Canada

HOUSING YORK INC.

Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 1,925,014	\$ 2,965,281
Accounts receivable:		
Rents	207,532	187,545
GST/HST	781,091	144,035
Amounts due from Regional Municipality of York	1,975,914	1,039,732
Other	234,128	91,503
Prepaid expenses	229,430	252,032
Inventory (note 8)	69,646	45,025
	5,422,755	4,725,153
Restricted cash and investments:		
Rental deposits	298,515	274,221
Reserve fund deposits	782,426	287,330
Energy Management Pilot Reserve	35,562	78,886
Energy Management Strategy Reserve	229,077	129,375
Emergency Power Plan Reserve	539,541	539,541
Insurance Reserve	162,630	201,257
Reserve fund for Voyager Upgrade Project	210,105	—
Reserve fund for Fairy Lake Pond	574,848	—
Reserve fund investments (note 5)	4,330,536	4,463,724
Operating fund investments (note 5)	2,038,954	2,587,909
	9,202,194	8,562,243
Property holdings (note 2)	96,259,580	99,771,574
Energy management strategy (note 4(c))	135,000	—
	\$ 111,019,529	\$ 113,058,970

	2010	2009
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,270,680	\$ 1,939,879
Deferred revenue	625,316	462,090
Amounts due to Regional Municipality of York, without interest or terms of repayment	3,810,807	3,664,249
Current portion of mortgage payable (note 3)	3,574,985	15,603,869
	10,281,788	21,670,087
Building financing:		
Loan agreements	5,834,000	5,834,000
Mortgages payable (note 3)	80,464,582	71,699,794
	86,298,582	77,533,794
Equity (note 4):		
Reserve fund for capital equipment replacement	4,557,967	4,706,347
Reserve Fund for Energy Management Pilot Project	35,562	78,886
Reserve Fund for Energy Management Strategy Project	229,077	129,375
Reserve Fund for Emergency Power Plan Project	539,541	539,541
Reserve Fund for Insurance Reserve	162,630	201,257
Reserve Fund for Voyager Upgrade Project	210,105	—
Reserve Fund for Fairy Lake Pond	574,848	—
Shareholder's equity	6,557,461	6,557,461
Retained earnings	1,571,968	1,642,222
	14,439,159	13,855,089
	\$ 111,019,529	\$ 113,058,970

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

HOUSING YORK INC.

Statement of Revenue and Expenditures and Retained Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2010 Budget	2010 Actual	2009 Actual
Revenue:			
Rental revenue	\$ 13,178,718	\$ 13,297,827	\$ 13,064,193
Non rental revenue	455,802	455,782	573,461
Operating subsidies (note 6)	9,435,183	8,836,939	8,068,744
Operating surplus	96,839	94,984	69,288
	23,166,542	22,685,532	21,775,686
Expenditures:			
Mortgage/lease payments (note 3)	8,498,343	8,394,602	8,501,039
Administration and maintenance	6,806,768	6,760,941	6,788,415
Utilities	2,714,287	2,391,623	2,225,103
Property taxes	2,141,370	2,040,469	2,066,566
Capital	1,795,000	1,743,474	910,843
Insurance costs	268,250	275,348	207,220
Shelter costs	—	109,698	143,349
Bad debts	80,251	42,100	82,988
	22,304,269	21,758,255	20,925,523
Excess of revenue over expenditures before the undernoted	862,273	927,277	850,163
Contribution to Capital Reserve (note 4)	668,592	744,634	730,875
Excess of revenue over expenditures	<u>\$ 193,681</u>	182,643	119,288
Non-program transactions:			
Building depreciation expense		(247,897)	(238,550)
Retained earnings, beginning of year		1,642,222	1,818,118
Internal allocations:			
Insurance Reserve		(5,000)	(50,000)
Strategic Projects		—	(6,634)
		(5,000)	(56,634)
Retained earnings, end of year		\$ 1,571,968	\$ 1,642,222

See accompanying notes to financial statements.

HOUSING YORK INC.

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	\$ 927,277	\$ 850,163
Amortization of income-producing properties which does not involve cash	3,511,994	3,307,998
Amortization of energy management strategy	(135,000)	—
Cash contributions from reserves	(343,207)	(1,277,913)
Change in non-cash operating working capital:		
Accounts receivable	(799,668)	125,321
Prepaid expenses	22,602	(78,480)
Inventory	(24,621)	(45,025)
Accounts payable and accrued liabilities	330,801	(110,643)
Deferred revenue	163,226	(68,879)
Amounts due to/from Regional Municipality of York	(789,624)	(697,280)
	2,863,780	2,005,262
Financing:		
Mortgage repayments	(3,264,096)	(3,069,448)
Investments:		
Decrease (increase) in restricted cash - rental deposits	(24,294)	9,934
Decrease (increase) in restricted cash - reserve fund deposits	(495,096)	460,891
Decrease in restricted cash - reserve fund investments	133,188	378,742
Decrease in restricted cash - Energy Management Pilot Reserve	43,324	43,324
Increase in restricted cash - Energy Management Strategy Reserve	(99,702)	(129,375)
Increase in restricted cash - Emergency Power Plan Reserve	—	(51,712)
Decrease (increase) in restricted cash - Insurance Reserve	38,627	(13,549)
Increase in restricted cash - reserve fund for Voyager Upgrade Project	(210,105)	—
Increase in restricted cash - reserve fund for Fairy Lake Pond	(574,848)	—
Decrease in operating fund investments	548,955	1,561,939
	(639,951)	2,260,194
Increase (decrease) in cash and cash equivalents	(1,040,267)	1,196,008
Cash and cash equivalents, beginning of year	2,965,281	1,769,273
Cash and cash equivalents, end of year	\$ 1,925,014	\$ 2,965,281

See accompanying notes to financial statements.

HOUSING YORK INC.

Notes to Financial Statements

Year ended December 31, 2010

Housing York Inc. (the "Corporation") was incorporated in accordance with Section 182 of the Ontario Business Corporations Act on January 1, 2003. The Regional Municipality of York (the "Region") is the sole shareholder of the Corporation.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with accounting policies that comply with Section 113(2) of the Social Housing Reform Act, 2000 (the "Act") and guidance in its application issued by the Housing Services Branch of the Region.

Significant interpretations of the financial reporting provisions of the Act include:

(i) Income-producing properties:

Income-producing properties that were transferred to the Public Housing Program on December 14, 2000 by the Province of Ontario are carried at a nominal value of \$1 as the fair value of the properties is not readily available.

Income-producing properties that are reported for the Provincial Reform Program and include land, buildings, equipment and other capitalized costs recorded at cost, net of any government grants or contributions.

As described in the Act, costs incurred by the Provincial Reform Program to modernize or improve existing income-producing properties, which have the effect of extending the useful life of the property or increasing its value, are funded from the Capital Repair and Replacement Reserve. The Public Housing Program has no Capital Repair and Replacement Reserve; therefore, these expenses are reflected as operating expenses. The Regional Housing Program is self-sustaining and funds its own Capital Repair and Replacement Reserve through surplus operating funds.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

During 2004, the Region implemented the Regional Housing Program which the Corporation manages on behalf of the shareholder through a long-term lease agreement. A second property was added to this program in October 2006. The land, building and equipment for these sites are not reflected on the Corporation's book of accounts. A third location was added to this program in 2008. Unlike the first two buildings, the Corporation holds title for this new building which is reported on the financial statements as discussed in Sections 1(a)(iii) and 4(b). None of the buildings in the Regional Housing Program fall under Social Housing Reform Act, 2000 and, therefore, are not subject to comply with accounting policies under Section 113(2).

(ii) Other property holdings:

The Corporation owns a non-revenue-producing property with multiple buildings that serve as emergency shelters. Porter Place, the men's shelter, receives subsidy under the Act and is, therefore, reported in the same manner as the Corporation's other Provincial Reform Program locations.

In 2009, the Corporation added a new family shelter building known as Leeder Place to the Blue Door Shelters site. This building does not fall under the Act and is, therefore, excluded from the accounting policies under Section 113(2). The old Leeder Place family shelter has been closed and its disposition is under review.

(iii) Amortization:

The Corporation follows the amortization policy for Provincial Reform Program properties prescribed in the Act. Under this policy, the cost of land, buildings and equipment is amortized over the terms of the mortgages secured to finance such assets and the annual charges for amortization are equal to the annual principal repayments on these mortgages.

Buildings owned by the Corporation that are not subject to the Act are valued at the cost of construction. These buildings are amortized over an estimated useful life of 50 years using straight-line amortization method. This currently includes Tom Taylor Place and Leeder Place family shelter.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

The Corporation remits financing payments to the Region for the Regional Housing Program buildings that are leased to Corporation. Revenue generated by tenant rents are returned to the Region to fund debenture commitments held by the Region.

(iv) Transfers to/from Capital Repair and Replacement Reserve fund:

Appropriations to/from the Capital Repair and Replacement Reserve fund are reported on the statement of revenue and expenditures and retained earnings. Expenditures made from the Capital Repair and Replacement Reserve fund are reported within this fund and not on the statement of revenue and expenditures and retained earnings. Interest income earned on investments of the Capital Repair and Replacement Reserve fund is credited directly to the Capital Repair and Replacement Reserve fund and is not reported on the statement of revenue and expenditures and retained earnings.

(v) Financial instruments:

Investments are reported at book value. Gains or losses are disclosed at the time of redemption as per Program Instructions from the Region.

(b) Other reserve funds:

In 2006, the Corporation established reserve funds from retained earnings for expenditures approved by the Board of Directors. These funds are specifically restricted for energy management, emergency power plan and insurance deductible expenditures.

In 2009, the Corporation entered into two specific agreements with the Region which flow additional subsidy in the form of grants for specified major repair and renovations. These agreements require reporting the additional funding and through capital reserves. The Corporation chose to segregate these reserves from the mandatory Capital Repair And Replacement Reserve as noted in note 1(a)(iv) due to their temporary nature but the accounting policy applied to the temporary reserves is consistent with the Capital Repair and Replacement Reserve fund.

In 2010, two further temporary reserves were established. One was to accommodate additional subsidy funding and expenditures related to an information system upgrade. The other is to capture a multi-year environmental remediation effort at one of Corporation's Public Housing Program sites. These are discussed further in note 4.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(c) Investments:

Under Program Instruction 2008-02 issued by the Region, the Corporation records its investments at book value. Gains or losses associated with capital reserve investments are recognized at redemption.

(d) Bad debts:

The funding formula does not recognize a provision for doubtful accounts. Therefore, bad debts are recognized as an expense in the year that write-off has occurred. The Corporation applies a collection of tenant accounts policy, which indicates that former tenant arrears that meet certain criteria are eligible for write-off annually.

(e) Operations:

As of December 31, 2010, the portfolio consists of 31 multi-residential buildings and an emergency shelter site. While the Corporation owns the shelter site, daily operations are provided by Blue Door Shelters through an operating agreement.

(f) Subsidy reconciliation - operating subsidies:

The Corporation is subsidized for certain occupancy costs relating to Provincial Reform Program and Public Housing Program properties administered by the Corporation. Any surplus funding received must be repaid in full to the Region. The Regional Housing Program is not eligible to receive operating subsidy.

The final subsidy amount to be received by the Corporation for the current fiscal year will not be determined until the System Service Manager reviews the Corporation's financial and statistical returns. Management of the Corporation considers the subsidy receivable (payable) to include all appropriate adjustments for non-allowable costs. Any adjustments to the subsidy will be accounted for in the year it is determined.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(g) Deferred revenue:

Deferred revenue consists of tenant deposits in respect of last-month's rent and subsidy payments applicable to future periods.

The amounts will be recognized as revenue in the appropriate future period or returned depending on the applicable circumstances.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that may affect disclosure of the reported amounts of assets and liabilities, contingent assets and liabilities, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Minor presentation adjustments were made to prior year comparative results for consistency purposes only.

2. Property holdings:

	2010	2009
Incoming-producing properties:		
Land	\$ 25,232,345	\$ 25,232,345
Buildings	90,114,038	90,114,038
	115,346,383	115,346,383
Less accumulated amortization	31,306,818	28,042,721
Net book value	\$ 84,039,565	\$ 87,303,662
Other properties:		
Land	\$ 315,000	\$ 315,000
Buildings	12,391,461	12,391,461
	12,706,461	12,706,461
Less accumulated amortization	486,446	238,549
Net book value	\$ 12,220,015	\$ 12,467,912

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

2. Property holdings (continued):

	2010	2009
Total property holdings:		
Land	\$ 25,547,345	\$ 25,547,345
Buildings	102,505,499	102,505,499
	128,052,844	128,052,844
Less accumulated amortization	31,793,264	28,281,270
Net book value	\$ 96,259,580	\$ 99,771,574

3. Mortgages payable:

(a) Mortgages payable applicable to buildings in the Provincial Reform Program:

Property	Particulars	2010	2009
Glenwood Mews	Mortgage payable, bearing interest at 4.54% per annum with blended monthly payments of \$39,167, maturing February 1, 2015	\$ 4,853,907	\$ 5,099,584
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of \$70,011, maturing January 1, 2025	8,128,244	8,397,665
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of \$87,877, maturing January 1, 2024	10,943,944	11,346,472
Mulock Village	Mortgage payable, bearing interest at 4.547% per annum with blended monthly payments of \$80,593, maturing March 1, 2017	11,131,938	11,586,474
Heritage East	Mortgage payable, bearing interest at 6.416% per annum with blended monthly payments of \$100,829, maturing October 1, 2015	12,339,773	12,780,657
Hadley Grange	Mortgage payable, bearing interest at 4.486% per annum with blended monthly payments of \$43,297, maturing February 1, 2018	6,231,531	6,468,389
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of \$70,757, maturing July 1, 2028	9,303,471	9,597,253

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Mortgages payable (continued):

Property	Particulars	2010	2009
Oxford Village	Mortgage payable, bearing interest at 4.39% per annum with blended monthly payments of \$17,571, maturing June 1, 2015	2,746,018	2,835,292
Rose Town	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of \$46,731, maturing December 1, 2012	4,976,202	5,265,821
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of \$11,214, maturing April 01, 2015	1,703,031	1,756,264
Trinity Square	Mortgage payable, bearing interest at 4.609% per annum with blended monthly payments of \$77,391, maturing March 01, 2015	10,640,946	11,073,080
Blue Door Shelters - Porter Place	Mortgage payable, bearing interest at 4.443% per annum with blended monthly payments of \$8,609, maturing September 1, 2018	1,040,562	1,096,712
Mortgages payable		84,039,567	87,303,663
Less current portion		3,574,985	15,603,869
		\$ 80,464,582	\$ 71,699,794

Principal repayments are as follows:

2011	\$ 3,574,985
2012	8,097,198
2013	3,591,199
2014	3,764,347
2015	28,340,412
Thereafter	36,671,426
	\$ 84,039,567

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Property financing (continued):

(b) Tom Taylor Place:

Tom Taylor Place, a 50-unit facility in the Town of Newmarket, opened October 1, 2008. The building was constructed by the Region through the Affordable Housing Program, which offers funding partnerships with the federal and provincial governments. The building is owned by the Corporation, however, the financial reporting does not fall under the Act like the other income-producing properties owned by the Corporation.

The Corporation purchased the land for this building in January 2006 for \$315,000. Financing for the building was structured in 2009 which includes Regional debentures and other loan agreements which are described below:

Amounts payable to shareholder	\$ 2,334,000
Provincial forgivable loan	2,100,000
Federal forgivable loan	1,400,000
Shareholder contribution	3,720,635
	\$ 9,554,635

The amounts payable to the shareholder comprises of two components.

- (i) A long-term loan in the amount of \$2,334,000 is repayable to the Region from rent revenue generated at the building. The Region has debentured this amount on the Corporation's behalf. Repayment terms are based on a 30-year amortization schedule.
- (ii) The remaining amount payable to shareholder is \$2,100,000 for a second debenture financed by the Region. Under the Affordable Housing Program, the province flows funds to the Corporation which, in turn, forwards the funds to the Region to pay the debenture. These provincial contributions are forgivable advances subjected to similar terms and conditions applicable to federal forgivable loan as discussed below. The term of the Regional debenture is 20 years.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Property financing (continued):

- (iii) The federal forgivable loan of \$1,400,000 is provided through the Canada - Ontario New Affordable Housing Program agreement. This loan is to be fully forgiven on the last day of the month at the end of the term of the loan. The term of the loan is 20 years maturing in 2028 and the amounts are forgiven provided all terms and conditions of the agreement are satisfied by the Corporation. The loan is interest bearing with the interest rate, being the higher of the average posted rate offered by major Canadian lending institutions for a commercial first mortgage having a five-year term, plus 2% or the interest rate applicable to the first mortgage registered against title to the property, plus 2%. The interest, however, is to be fully forgiven on an annual basis provided all terms and conditions of the agreement are satisfied by the Corporation.

The shareholder contribution in the amount of \$3,720,635 represents a gift from the Region to the Corporation to fully finance the cost of the Tom Taylor Place not covered by the Canada - Ontario Affordable Housing Program.

(c) Blue Door Shelters - Leeder Place:

The new Leeder Place family shelter, with a construction cost valued at \$2,836,826, was developed by the Region on existing lands owned the Corporation. It was gifted to the Corporation without any financing obligations.

4. Reserve funds:

In addition to the Capital Reserve fund that has always been maintained by the Corporation, the Board of Directors and the Region have approved additional reserves for specified purposes.

(a) Capital Repair and Replacement:

In accordance with the Act, the use of the Capital Repair and Replacement Reserve fund is limited to the replacement, enhancement or repair of existing capital assets, or the purchase of new capital assets for the Provincial Reform Program. Funding for capital expenditures is obtained through the Region, through the subsidy payment process.

Buildings in the Region Housing Program contribute a significant portion of annual surplus operating funds to a capital reserve for future major repairs and replacements within this program. For presentation purposes all capital reserve funds are reported on a consolidated basis.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

The Corporation does not maintain a capital reserve fund account for the Public Housing Program.

The Corporation has a 10-year capital plan for managing expenses from capital reserves, which has been approved through a separate process.

	2010	2009
Balance, beginning of year	\$ 4,706,347	\$ 5,109,513
Transfer in from operating	744,634	725,294
Interest earned	174,058	170,087
Capital expenditures for current year	(1,067,072)	(1,298,547)
Net activity for the year	(148,380)	(403,166)
Balance, end of year	\$ 4,557,967	\$ 4,706,347

(b) Energy Management Pilot Project:

In 2005, the Corporation's Board of Directors approved the use of up to \$500,000 from retained earnings to pilot energy management initiatives at two buildings, Elmwood Gardens in the Town of Whitchurch-Stouffville, and Founders Place in the Town of Newmarket. The funds were to be repaid to retained earnings through utility savings generated at the sites following retrofit.

The pilot project has wound down and been replaced with a multi-year energy management strategy discussed below. An annual payment of \$43,324 will be made from the Energy Management Pilot Project Reserve to retained earnings to repay the original investment. This reserve will be closed in 2011 when the original borrowed funds are fully repaid.

	2010	2009
Balance, beginning of year	\$ 78,886	\$ 122,210
Repayment to retained earnings	(43,324)	(43,324)
Net activity for the year	(43,324)	(43,324)
Balance, end of year	\$ 35,562	\$ 78,886

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

(c) Multi Year Energy Management Strategy - year 3:

Following the positive outcomes of the Energy Management Pilot Project, the Board of Directors approved a five-year plan to retrofit a further 25 buildings in the portfolio. Regional Council approved a \$3,500,000 interest free loan from the Region's innovative fund to update five buildings per year. Repayment of the loan would come from utility savings at the retrofitted buildings over an estimated pay-back period of 14 years.

So far only \$150,000 has been borrowed from the Region as alternative grant funding through the economic stimulus program became available. The Corporation is making its first repayment toward these borrowed funds in 2010. The total borrowing requirement for the life of the program is now expected to be less than \$2,000,000.

	2010	2009
Balance, beginning of year	\$ 129,375	\$ –
Funding sources:		
Incentives and rebate assistance	11,710	72,200
Utility savings	292,943	226,491
Loan innovation	–	150,000
	304,653	448,691
Expenditures:		
Direct costs and project administration	(189,951)	(319,316)
Loan repayment as per Region agreement	(15,000)	–
	(204,951)	(319,316)
Net activity for the year	99,702	129,375
Balance, end of year	\$ 229,077	\$ 129,375

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

(d) Emergency power plan:

Following the examination of the Corporation's emergency power capabilities in a long-term power outage, the Board of Directors approved the use of \$910,500 from retained earnings to fund emergency power upgrades in several apartment buildings. The multi-year plan addresses operational and tenant safety issues. A major generator installation is scheduled for completion in 2011 which will use the majority of the remaining funds in this reserve.

	2010	2009
Contribution from retained earnings	\$ 539,541	\$ 487,829
Emergency power plan expenditures for the current year	–	51,712
Balance, end of year	\$ 539,541	\$ 539,541

(e) Insurance Reserve:

The Corporation maintains property insurance on all buildings through the Social Housing Services Corporation. This is a pooled insurance program available for housing providers in Ontario.

The Corporation takes all reasonable measures to mitigate insurance claims through aggressive risk management strategies. However, the unpredictable nature of insurance claims has the potential to create unforeseen impacts on operating expenses on a year-over-year basis as frequency and severity of incidents cannot be forecasted.

As an alternative to using operating funds on an as-required basis for insurance related costs, the Board of Directors approved the establishment of a reserve fund to facilitate a more predictable draw on operating expenses. The initial contribution to the reserve from retained earnings was \$200,000 in 2006 with a budgeted annual contribution thereafter.

Based on reserve activity from prior years, the Board of Directors approved adjustments to the threshold balance of the reserve as well as the annual contribution limit in 2010. The reserve balance will continue to be monitored yearly for adequacy against claims costs.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

Insurance costs related to deductibles on claims and small settlements will be paid from the insurance reserve fund. The combination of the insurance policy and the insurance reserve provides financial protection from catastrophic loss.

	2010	2009
Balance, beginning of year	\$ 201,257	\$ 187,708
Contribution to Reserve	25,000	50,000
Transfer out to retained earnings	(20,000)	—
Claims paid during year, net of recoveries	(43,627)	(36,451)
Net activity for the year	(38,627)	13,459
Balance, end of year	\$ 162,630	\$ 201,257

(f) Social Housing Repair and Retrofit Program:

During 2009, the federal and provincial governments implemented the Social Housing Repair and Retrofit Program ("SHRRP") as part of a national economic stimulus initiative. The program provides one-time grant funding for specific capital betterments in social housing infrastructure.

On behalf of upper tier governments, the local SHRRP program is administered by the Region through formal agreements with housing providers. The agreement spans a two-year period and requires providers to report the additional funding and approved expenditures through a capital reserve.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

The Corporation is approved to spend approximately \$4.1 million under the two year stimulus program and has reported \$3,518,163 to date. The program winds down in March 2011.

	2010	2009
Balance, beginning of year	\$ —	\$ —
Contribution to reserve	2,946,288	571,875
Expenditures	(2,946,288)	(571,875)
Net activity for the year	—	—
Balance, end of year	\$ —	\$ —

(g) Additional Subsidy Agreement:

Pursuant to Section 111 of the Act and Section 34 of Ontario Regulation 339/01, the Region may provide additional subsidies to housing providers participating in non-profit programs.

Through an agreement which identified the completion of four specific jobs that qualified for additional funding, the Corporation spent \$467,857 in 2009. Funding was received in 2010. A small overpayment will be refunded in the annual subsidy reconciliation and the reserve is now closed.

	2010	2009
Balance, beginning of year	\$ —	\$ —
Contribution to reserve	18,552	467,857
Expenditures	—	(467,857)
Transfer out - reconciliation payment to Region	(18,552)	—
Net activity for the year	—	—
Balance, end of year	\$ —	\$ —

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

(h) Voyager Upgrade Project:

A new one-time subsidy agreement was executed with the Region in 2010 to fund a major upgrade in property management and financial software. The first phase of the project was delivered in 2010 and further modules will be implemented in 2011.

	2010	2009
Balance, beginning of year	\$ —	\$ —
Contribution to Reserve	500,000	—
Transfer-in from operating	13,300	—
Expenditures	(303,195)	—
Net activity for the year	210,105	—
Balance, end of year	\$ 210,105	\$ —

(i) Fairy Lake Pond Remediation:

Working with the Region's Environmental Services Department, consulting services are underway concerning accumulated silt in a pond at 468 and 474 Eagle Street in the Town of Newmarket. The pond allows storm water run-off to flow from a creek into Fairy Lake. The pond forms part of the East Holland River system which is part of the Lake Simcoe watershed. The remediation of the pond provides environmental, economic and social benefits.

Both environmental and public consulting was completed in 2010 at a cost of \$25,152. Remediation is expected to take place in 2011. Under direction from the Region, the unused portion of the \$600,000 budget for this project has been reserved in anticipation of completing the project in the upcoming year.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Reserve funds (continued):

The Corporation may have recourse with the prior land owner, Ontario Mortgage and Housing Corporation ("OMC"), as minor lead contamination appears to have existed at the time of property transfer. The Province was notified of the environmental contamination and is receiving regular project updates. OMC has indicated they are prepared to assist with costs associated with the remediation.

	2010	2009
Balance, beginning of year	\$ —	\$ —
Contribution to Reserve (unused budget)	574,848	—
Expenditures	—	—
Net activity for the year	574,848	—
Balance, end of year	\$ 574,848	\$ —

5. Investments:

During 2005, the Corporation adopted an Investment Strategy Policy which includes the management of mandatory investment of the Capital Repair and Replacement Reserve as well as the investment of surplus operating funds. The policy prescribes to a conservative investment approach that carries a low to moderate risk tolerance similar to investment strategies adopted by the Region.

(a) Capital repair and replacement fund:

Under the requirements of the Act, housing providers are required to invest their Capital Repair and Replacement Reserve fund in an investment pool designed for housing providers. The Corporation has participated in this mandatory program since its inception and, from time to time, adjusts its investment mix to reflect its risk profile and to improve its overall returns.

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments (continued):

On December 31, 2010, the following investment values are reported:

	Value	Total (%)
Security description:		
Social Housing Canadian Short Term Bond Fund	\$ 2,826,884	65.3
Social Housing Canadian Bond Fund	759,127	17.5
Social Housing Canadian Equity Fund	744,525	17.2
Total Capital Repair and Replacement Reserve investment	\$ 4,330,536	100.0

(b) Surplus operating funds:

Surplus operating funds are invested to improve upon the return that would otherwise be made earning bank interest. Surplus operating funds would include restricted funds from retained earnings and short-term cash flow excesses not needed to support operations. Investments of this nature typically fall into a short-term investment horizon of three months to four years. The Corporation holds the following investment instruments as of December 31, 2010:

	Par value	Maturity date	Yield to maturity
Security description:			
Province of Ontario Bond	\$ 1,000,000	December 2, 2011	2.966%
Province of British Columbia Bond	1,000,000	January 9, 2012	3.598%
Unamortized premiums (discounts)	38,954		
Total surplus operating investments	\$ 2,038,954		

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Related party transactions:

(a) During the year, the Corporation received net subsidies as summarized below:

	2010	2009
Subsidies:		
Provincial Reform Program	\$ 6,644,397	\$ 6,586,826
Public Housing Program	2,617,788	1,216,442
Blue Door Shelters	115,089	115,476
	<u>\$ 9,377,274</u>	<u>\$ 7,918,744</u>

The Region provided contracted services of personnel, rental of office space and other administrative costs. The cost of these services, aggregating \$4,563,586 (2009 - \$4,702,021), was charged to contracted services expenditures.

(b) Buildings in the Regional Housing Program are financed by the Region. The collection of tenants' rent is used to pay the financing costs and the Corporation issued payments to the Region to fund the debentures payable.

Property	Particulars	2010	2009
Armitage Gardens	Debenture payable, 20-year amortization with blended annual payment of \$112,259	\$ 253,135	\$ 253,135
Blue Willow Terrace	Debenture payable, 30-year amortization with blended annual payment of \$238,761	238,761	238,761
Tom Taylor Place	Debenture payable, 30-year amortization with blended annual payment of \$153,616	318,402	174,100
	Debenture payable, 20-year amortization with blended annual payment of \$164,786		
Total debentures payable		<u>\$ 810,298</u>	<u>\$ 665,996</u>

HOUSING YORK INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

7. Fair values of financial instruments:

The carrying amount of cash and restricted cash in respect of rental deposits consist of bank account deposits and is comparable to its fair value.

The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts.

The Corporation holds investments in all four pooled funds available to social housing providers for capital repair and replacement reserves. The fair value for the pooled investment is \$4,456,789 at December 31, 2010. The balance of the capital reserve is held in current bank account deposits with a market value equivalent to cost.

The fair market value of the investment of surplus operating funds is \$2,069,330, which reflects par value net of unamortized discounts and premiums. Discounts or premiums are amortized over the remaining term of the investments.

8. Inventory:

The Corporation maintains a small central stockroom for minor spare parts that are used for unit repairs. The value of \$69,646 assigned to the inventory on December 31, 2010 was based on a physical count of the items on hand times the average unit price.

9. Subsequent events:

In 2011, the Corporation will increase its property holdings with the addition of new buildings. One acquisition, a 101 townhouse complex in the Town of Markham, is scheduled for March 1, 2011. This income-producing property receives subsidy under the Act and will be transferred into the portfolio for the outstanding amount of the mortgage, which is currently estimated at \$6,700,000.

A new development currently under construction by the Region will be gifted to the Corporation in 2011. This 39-unit expansion in Township of King will add 39 seniors' apartments to the portfolio in October 2011 at an estimated construction cost of \$10,020,000.