ATTACHMENT 1

DRAFT #10
April 12, 2012

Financial Statements of

HOUSING YORK INC.

Year ended December 31, 2011

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, 2011, 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 the financial reporting provisions of Section 113(2) of the Social Housing Reform Act, 2000 and guidance in its application issued by the Housing and Long Term Care 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 the financial reporting provisions of Section 113(2) of the Social Housing Reform Act, 2000 and guidance in its application issued by the Housing and Long Term Care 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Housing York Inc. as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 113(2) of the Social Housing Reform Act, 2000 and guidance in its application issued by the Housing and Long Term Care 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 the Housing and Long Term Care 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 and Long Term Care Branch of the Regional Municipality of York and should not be used by parties other than Housing York Inc. or the Housing and Long Term Care Branch of the Regional Municipality of York.

DRAFT

Chartered Accountants, Licensed Public Accountants

June 20, 2012
Toronto, Canada

HOUSING YORK INC.

DRAFT Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	$ 3,285,436	$ 1,925,014
Accounts receivable:		
Rents	314,101	207,532
GST/HST	346,293	781,091
Amounts due from Regional Municipality of York	26,500	1,975,914
Other	92,447	234,128
Prepaid expenses	333,484	229,430
Inventory (note 8)	36,744	69,646
	4,435,005	5,422,755
Restricted cash and investments:		
Rental deposits	384,613	298,515
Reserve fund deposits	992,645	782,426
Energy Management Pilot Reserve	–	35,562
Energy Management Strategy Reserve	882,490	229,077
Emergency Power Plan Reserve	539,541	539,541
Insurance Reserve	161,127	162,630
Reserve fund for Voyager Upgrade Project	93,454	210,105
Reserve fund for Fairy Lake Pond	494,225	574,848
Strategic Projects	42,712	–
Reserve fund investments (note 5)	4,759,760	4,330,536
Operating fund investments (note 5)	2,040,484	2,038,954
	10,391,051	9,202,194
Property holdings (note 2)	106,054,648	96,259,580
Furniture and fixtures	80,679	–
Energy Management Strategy	–	135,000
	$ 120,961,383	$ 111,019,529

		2011		2010

Liabilities and Equity

		2011		2010
Current liabilities:				
Accounts payable and accrued liabilities	$	1,988,374	$	2,270,680
Deferred revenue		562,194		625,316
Amounts due to Regional Municipality of York, without interest or terms of repayment		3,387,615		3,810,807
Current portion of mortgages payable (note 3)		14,045,974		3,574,985
		19,984,157		10,281,788
Building financing:				
Loan agreements (note 3)		5,834,000		5,834,000
Mortgages payable (note 3)		72,367,384		80,464,582
		78,201,384		86,298,582
Equity (note 4):				
Reserve fund for Capital Repair and Replacement		5,511,985		4,557,967
Reserve fund for Energy Management Pilot Project		–		35,562
Reserve fund for Energy Management Strategy Project		882,491		229,077
Reserve fund for Emergency Power Plan Project		539,541		539,541
Reserve fund for Insurance Reserve		161,127		162,630
Reserve fund for Voyager Upgrade Project		93,454		210,105
Reserve fund for Fairy Lake Pond		494,225		574,848
Reserve fund for Strategic Projects		42,713		–
Shareholder's equity		14,334,330		6,557,461
Retained earnings		715,976		1,571,968
		22,775,842		14,439,159
Subsequent events (note 9)				
	$	120,961,383	$	111,019,529

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

HOUSING YORK INC.

DRAFT Statement of Revenue and Expenditures and Retained Earnings

Year ended December 31, 2011, with comparative figures for 2010

	2011 Budget	2011 Actual	2010 Actual
Revenue:			
Rental	$ 14,905,692	$ 14,269,518	$ 13,297,827
Non-rental	777,203	579,725	620,568
Operating subsidies (note 6)	8,726,038	8,356,720	8,836,939
Operating surplus	74,171	99,241	94,984
	24,483,104	23,305,204	22,850,318
Expenditures:			
Mortgage payments (note 3)	9,440,784	8,801,426	8,559,388
Administration and maintenance	7,261,981	7,503,881	6,760,941
Utilities	3,089,833	2,565,568	2,391,623
Property taxes	2,359,429	2,219,989	2,040,469
Capital	1,123,303	930,817	1,743,474
Insurance	321,405	279,319	275,348
Bad debts	78,313	41,846	42,100
Shelter	77,322	70,143	109,698
	23,752,370	22,412,989	21,923,041
Excess of revenue over expenditures before the undernoted	730,734	892,215	927,277
Contribution to Capital Reserve (note 4)	659,713	767,975	744,634
Excess of revenue over expenditures	$ 71,021	124,240	182,643
Non-program transactions:			
Building amortization expense		(274,914)	(247,897)
Retained earnings, beginning of year		1,571,968	1,642,222
Internal allocations:			
Contribution from Insurance Reserve (note 4)		(25,000)	(5,000)
Energy Management Program (note 4)		(738,050)	–
Strategic Projects (note 4)		(50,000)	–
Transfer in Thornhill Green		273,863	–
Prior years' subsidy settlement		(168,144)	–
Blue Door Shelter Capital Reserve adjustment		2,013	–
		(705,318)	(5,000)
Retained earnings, end of year		$ 715,976	$ 1,571,968

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 892,215	$ 927,277
Amortization of income-producing properties which does not involve cash	4,019,640	3,511,994
Cash contributions from reserves	(332,401)	(343,207)
Change in non-cash operating working capital:		
Accounts receivable	469,910	(799,668)
Prepaid expenses	(104,054)	22,602
Inventory	32,902	(24,621)
Energy Management strategy	135,000	(135,000)
Accounts payable and accrued liabilities	(282,306)	330,801
Deferred revenue	(63,122)	163,226
Amounts due to/from Regional Municipality of York	1,526,222	(789,624)
	6,294,006	2,863,780
Financing:		
Principal repayment	(3,744,727)	(3,264,096)
Mortgages acquired	6,118,518	–
	2,373,791	(3,264,096)
Investments:		
Increase in restricted cash - rental deposits	(86,098)	(24,294)
Increase in restricted cash - reserve fund deposits	(210,219)	(495,096)
Decrease (increase) in restricted cash - reserve fund investments	(429,224)	133,188
Decrease in restricted cash - Energy Management Pilot Reserve	35,562	43,324
Increase in restricted cash - Energy Management Strategy Reserve	(653,413)	(99,702)
Decrease in restricted cash - Insurance Reserve	1,503	38,627
Decrease (increase) in restricted cash - reserve fund for Voyager Upgrade Project	116,651	(210,105)
Decrease (increase) in restricted cash - reserve fund for Fairy Lake Pond	80,623	(574,848)
Increase in restricted cash - Strategic Projects	(42,712)	–
Decrease (increase) in operating fund investments	(1,530)	548,955
Purchase of income-producing properties	(6,118,518)	–
	(7,307,375)	(639,951)
Increase (decrease) in cash	1,360,422	(1,040,267)
Cash, beginning of year	1,925,014	2,965,281
Cash, end of year	$ 3,285,436	$ 1,925,014

See accompanying notes to financial statements.

HOUSING YORK INC.

DRAFT Notes to Financial Statements

Year ended December 31, 2011

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 and Long Term Care 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 include land, buildings, equipment and other capitalized costs are 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.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

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. A fourth location was added to this program in 2011. Unlike the first two buildings, the Corporation holds title for the third and fourth buildings which are reported on the financial statements, as discussed in notes 1(a)(iv) and 4(a). None of the buildings in the Regional Housing Program fall under the Act 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 location 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) Furniture and fixtures:

Furniture and fixtures are recorded at cost.

(iv) 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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

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, Leeder Place family shelter and Kingview Court Expansion.

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

Furniture and fixtures are amortized over an estimated useful life of 10 years using straight-line amortization method.

(v) 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 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 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.

(vi) 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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

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1. Significant accounting policies (continued):

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 through capital reserves. The Corporation chose to segregate these reserves from the mandatory Capital Repair and Replacement Reserve fund as noted note 1(a)(v) due to its temporary nature but the accounting policy applied to the temporary reserve 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 the Corporation's Public Housing Program sites. These are discussed further in note 4.

(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, 2011, the portfolio consists of 33 multi-residential buildings and an emergency shelter site. While the Corporation owns the shelter site, daily operations are provided by Blue Door Shelter 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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

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.

(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:

	2011	2010
Incoming-producing properties:		
Land	$ 25,232,345	$ 25,232,345
Buildings	96,232,555	90,114,038
	121,464,900	115,346,383
Less accumulated amortization	35,051,543	31,306,818
Net book value	$ 86,413,357	$ 84,039,565
Other properties:		
Land	$ 315,000	$ 315,000
Buildings	20,086,284	12,391,461
	20,401,284	12,706,461
Less accumulated amortization	759,993	486,446
Net book value	$ 19,641,291	$ 12,220,015

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

2. Property holdings (continued):

	2011	2010
Total property holdings:		
Land	$ 25,547,345	$ 25,547,345
Buildings	116,318,839	102,505,499
	141,866,184	128,052,844
Less accumulated amortization	35,811,536	31,793,264
Net book value	$ 106,054,648	$ 96,259,580

3. Mortgages payable:

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

Property	Particulars	2011	2010
Glenwood Mews	Mortgage payable, bearing interest at 4.54% per annum with blended monthly payments of $39,167, maturing February 1, 2015	$ 4,596,950	$ 4,853,907
Keswick Gardens	Mortgage payable, bearing interest at 6.996% per annum with blended monthly payments of $70,011, maturing January 1, 2025	7,839,645	8,128,244
Springbrook Gardens	Mortgage payable, bearing interest at 5.912% per annum with blended monthly payments of $87,877, maturing January 1, 2024	10,517,266	10,943,944
Mulock Village	Mortgage payable, bearing interest at 4.547% per annum with blended monthly payments of $80,593, maturing March 1, 2017	10,656,500	11,131,938
Heritage East	Mortgage payable, bearing interest at 2.693% per annum with blended monthly payments of $77,170, maturing October 1, 2015	11,736,824	12,339,773
Hadley Grange	Mortgage payable, bearing interest at 4.486% per annum with blended monthly payments of $43,297, maturing February 1, 2018	5,983,928	6,231,531

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Mortgages payable (continued):

Property	Particulars	2011	2010
Brayfield Manor	Mortgage payable, bearing interest at 5.94% per annum with blended monthly payments of $70,757, maturing July 1, 2028	8,991,980	9,303,471
Oxford Village	Mortgage payable, bearing interest at 4.39% per annum with blended monthly payments of $17,571, maturing June 1, 2015	2,652,780	2,746,018
Rose Town	Mortgage payable, bearing interest at 5.34% per annum with blended monthly payments of $46,731, maturing December 1, 2012	4,670,910	4,976,202
Woodbridge Lane	Mortgage payable, bearing interest at 4.742% per annum with blended monthly payments of $11,214, maturing April 1, 2015	1,647,243	1,703,031
Trinity Square	Mortgage payable, bearing interest at 4.609% per annum with blended monthly payments of $77,391, maturing March 1, 2015	10,188,665	10,640,946
Thornhill Green	Mortgage payable, bearing interest at 5.45% per annum with blended monthly payments of $46,002, maturity December 1, 2012	5,948,777	–
Blue Door Shelter - Porter Place	Mortgage payable, bearing interest at 4.443% per annum with blended monthly payments of $8,609, maturing September 1, 2018	981,890	1,040,562
Mortgages payable		86,413,358	84,039,567
Less current portion		14,045,974	3,574,985
		$ 72,367,384	$ 80,464,582

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

3. **Mortgages payable (continued):**

Principal repayments are as follows:

2012	$ 14,045,974
2013	3,591,199
2014	3,764,347
2015	28,340,412
2016	2,372,864
Thereafter	34,298,562
	$ 86,413,358

(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	$ 4,434,000
Federal forgivable loan	1,400,000
Shareholder contribution	3,720,635
	$ 9,554,635

(i) The amounts payable to the shareholder is made up of two components.

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.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Mortgages payable (continued):

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.

(ii) 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.

(iii) 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.

(d) Kingview Court Expansion:

Kingview Court Expansion, a 39-unit facility in the Town of King, opened October 26, 2011. The building was constructed through the Affordable Housing Program which offers funding partnerships with the federal and provincial governments, by the Region with an estimated cost of $7,776,869, including $82,047 in furniture and fixtures. The building is owned by the Corporation and it was gifted without any financing obligations. The financial reporting does not fall under the Act like the other income-producing properties owned by the Corporation.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

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 Reserve fund:

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 Regional 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.

The Corporation does not maintain a Capital Repair and Replacement 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.

	2011	2010
Balance, beginning of year	$ 4,557,967	$ 4,706,347
Funding from Region	374,926	–
Transfer of new acquisition reserves	1,516,558	–
Transfer in from operating	767,975	744,634
Interest earned	192,815	174,058
Capital expenditures for current year	(1,898,256)	(1,067,072)
Net activity for the year	954,018	(148,380)
Balance, end of year	$ 5,511,985	$ 4,557,967

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Reserve funds (continued):

(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 was closed in 2011 as the original borrowed funds have been fully repaid.

	2011	2010
Balance, beginning of year	$ 35,562	$ 78,886
Repayment to retained earnings	(35,562)	(43,324)
Net activity for the year	(35,562)	(43,324)
Balance, end of year	$ –	$ 35,562

(c) Multi-year Energy Management Strategy - year four:

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 payback period of 10 years.

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

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4. **Reserve funds (continued):**

As of December 31, 2011, $800,000 has been borrowed from the Region as alternative grant funding through the economic stimulus program was available. The Corporation made its first repayment towards these borrowed funds in 2010. The total borrowing requirement for the life of the program is now expected to be less than $1,000,000.

	2011	2010
Balance, beginning of year	$ 229,077	$ 129,375
Funding sources:		
Incentives and rebate assistance	–	11,710
Utility savings	341,249	292,943
Region innovation loan	650,000	–
	991,249	304,653
Expenditures:		
Direct costs and project administration	(322,835)	(189,951)
Loan repayment as per Region agreement	(15,000)	(15,000)
	(337,835)	(204,951)
Net activity for the year	653,414	99,702
Balance, end of year	$ 882,491	$ 229,077

(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.

	2011	2010
Balance, beginning of year	$ –	$ –
Contribution from retained earnings	539,541	539,541
Net activity for the year	–	–
Balance, end of year	$ 539,541	$ 539,541

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Reserve funds (continued):

(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 at the annual contribution limit in 2010. The reserve balance will continue to be monitored yearly for adequacy against claims costs.

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 fund provides financial protection from catastrophic loss.

	2011	2010
Balance, beginning of year	$ 162,630	$ 201,257
Contribution to Reserve	25,000	25,000
Transfer out to retained earnings	–	(20,000)
Claims paid during year, net of recoveries	(26,503)	(43,627)
Net activity for the year	(1,503)	(38,627)
Balance, end of year	$ 161,127	$ 162,630

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Reserve funds (continued):

(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 though a capital reserve.

The Corporation was approved to spend $4,389,726. The program wound down in June 2011.

	2011	2010
Balance, beginning of year	$ –	$ –
Contribution to Reserve	871,563	2,946,288
Expenditures	(871,563)	(2,946,288)
Net activity for the year	–	–
Balance, end of year	$ –	$ –

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Reserve funds (continued):

(g) 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 were implemented in 2011.

	2011	2010
Balance, beginning of year	$ 210,105	$ –
Contribution to Reserve	–	500,000
Transfer-in from operating	9,084	13,300
Expenditures	(125,735)	(303,195)
Net activity for the year	(116,651)	210,105
Balance, end of year	$ 93,454	$ 210,105

(h) 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 2012. 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.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. **Reserve funds (continued):**

(i) Strategic Projects:

The Board of Directors approved $50,000 to be allocated to various strategic projects in 2011. During the year, $7,287 was spent on projects.

	2011	2010
Balance, beginning of year	$ –	$ –
Contribution to Reserve	50,000	–
Expenditures	(7,287)	–
Net activity for the year	42,713	–
Balance, end of year	$ 42,713	$ –

(j) Shareholder's equity:

Kingview Court was constructed by the Region and was gifted to the Corporation without any financing obligations during the year. The estimated cost of the building was $7,776,869, which includes furniture and fixtures of $82,047.

	2011	2010
Balance, beginning of year	$ 6,557,461	$ 6,557,461
Contributions	7,776,869	–
Balance, end of year	$ 14,334,330	$ 6,557,461

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

4. Reserve funds (continued):

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

	2011	2010
Balance, beginning of year	$ 574,848	$ –
Contribution to Reserve (unused budget)	–	574,848
Expenditures	(80,623)	–
Net activity for the year	(80,623)	574,848
Balance, end of year	$ 494,225	$ 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 fund, 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) Reserve fund investments:

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.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

5. Investments (continued):

On December 31, 2011, the following investment values are reported:

	Value	Total (%)
Security description:		
Social Housing Canadian Short Term Bond Fund	$ 3,182,124	66.9
Social Housing Canadian Bond Fund	795,667	16.7
Social Housing Canadian Equity Fund	781,969	16.4
Total reserve fund investments	$ 4,759,760	100.0

(b) Operating fund investments:

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, 2011:

	Par value	Maturity date	Yield to maturity
Security description:			
CIBC Bank Deposit Note	$ 1,000,000	January 14, 2016	2.302%
Province of British Columbia Bond	1,000,000	January 9, 2012	3.598%
Unamortized premiums (discounts)	40,484		
Total operating fund investments	$ 2,040,484		

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

6. Related party transactions:

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

	2011	2010
Subsidies:		
Provincial Reform Program	$ 6,708,143	$ 6,644,397
Public Housing Program	1,999,998	2,617,788
Blue Door Shelters	115,416	115,089
	8,823,557	9,377,274
Less surplus subsidy payable to Service Manager	466,837	540,335
	$ 8,356,720	$ 8,836,939

The Region provided contracted services of personnel, rental of office space and other administrative costs. The cost of these services, aggregating $4,945,823 (2010 - $4,563,586), was charged to administration and maintenance.

(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	2011	2010
Armitage Gardens	Debenture payable, 20-year amortization with blended annual payment of $253,135	$ 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 and debenture payable, 20-year amortization with blended annual payment of $164,786	318,402	318,402
Total debentures payable		$ 810,298	$ 810,298

HOUSING YORK INC.

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2011

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 their fair value.

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

The Corporation holds investments in three of the four pooled funds available to social housing providers for capital repair and replacement reserves. The fair value for the pooled investment is $4,814,931 at December 31, 2011. 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 $2,040,484, 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 $36,744 (2010 - $69,646) assigned to the inventory on December 31, 2011 was based on a physical count of the items on hand times the average unit price.

9. Subsequent events:

In 2012, the Corporation will increase its property holdings with the addition of a new leased building under Regional Housing Program. The 84-unit building in the City of Vaughan is scheduled for January 16, 2012. This income-producing property does not receive subsidy under the Social Housing Reform Act, 2000.

A new development currently under construction by the Region will be added to the Corporation's portfolio in the spring of 2013. This building in the Town of Richmond Hill will provide 140 units for a mixed population of tenants at an estimated construction cost of $38,700,000.

10. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.