

**SUPPORTIVE HOUSING OF WATERLOO
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

SUPPORTIVE HOUSING OF WATERLOO
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YEAR ENDED DECEMBER 31, 2017

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Chartered
Professional
Accountants

INDEPENDENT AUDITOR'S REPORT

To the members of: Supportive Housing of Waterloo

We have audited the accompanying non-consolidated financial statements of Supportive Housing of Waterloo, which comprise the non-consolidated statement of financial position as at December 31, 2017 and the non-consolidated statements of changes in net assets, operations and cash flows for the year then ended, and 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 non-consolidated financial statements in accordance with Canadian accounting standards for not for profit organizations 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of Supportive Housing of Waterloo as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

A handwritten signature in black ink that reads 'RLB LLP'.

Kitchener, Ontario
June 7, 2018

Chartered Professional Accountants
Licensed Public Accountants

SUPPORTIVE HOUSING OF WATERLOO
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	2017	2016
ASSETS		
CURRENT		
Cash	\$ 784,154	\$ 59,404
Short term investments	1,758	360,899
Accounts receivable	15,863	22,181
Prepaid expenses	2,790	10,488
HST receivable	<u>35,877</u>	<u>48,082</u>
	840,442	501,054
PROPERTY, PLANT AND EQUIPMENT (note 4)	1,557,460	1,446,126
CAPITAL RESERVE HELD BY INFRASTRUCTURE ONTARIO	56,807	48,214
INVESTMENT IN EMPOWER CLEANING INC. (note 7)	<u>12,716</u>	<u>5,268</u>
	<u>\$ 2,467,425</u>	<u>\$ 2,000,662</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 48,125	\$ 44,295
Government remittances payable	261	1,061
Unearned revenue (note 5)	92,569	91,666
Current portion of loan - Infrastructure Ontario (note 6)	<u>10,732</u>	<u>10,234</u>
Current liabilities before callable debt	151,687	147,256
Callable debt (note 6)	<u>330,000</u>	<u>330,000</u>
	481,687	477,256
LOAN - INFRASTRUCTURE ONTARIO (note 6)	839,692	850,424
DEFERRED CAPITAL CONTRIBUTIONS (note 8)	<u>1,125,512</u>	<u>652,751</u>
	<u>2,446,891</u>	<u>1,980,431</u>
NET ASSETS		
NET ASSETS	<u>20,534</u>	<u>20,231</u>
	<u>\$ 2,467,425</u>	<u>\$ 2,000,662</u>

SUPPORTIVE HOUSING OF WATERLOO
NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
NET ASSETS, beginning of year	\$ 20,231	\$ 17,163
Net revenues over expenditures for the year	<u>303</u>	<u>3,068</u>
NET ASSETS, end of year	<u>\$ 20,534</u>	<u>\$ 20,231</u>

SUPPORTIVE HOUSING OF WATERLOO
NON-CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
REVENUES		
Region of Waterloo funding	\$ 439,486	\$ 421,997
Rental	215,730	222,092
Fundraising	51,921	40,273
Other grants	36,344	76,474
Amortization of deferred capital contributions (note 8)	35,739	28,170
Government of Canada grants	28,745	12,925
Other income (note 7)	8,321	2,914
Ontario Trillium Foundation funding	6,314	51,440
Interest income	1,229	3,365
	<u>823,829</u>	<u>859,650</u>
EXPENDITURES		
Salaries	466,048	486,233
Professional fees	60,822	44,667
Tenant support	53,611	56,737
Amortization	46,732	33,125
Utilities	44,273	50,334
Interest on long term debt	40,788	41,266
Repairs and maintenance	34,616	45,260
Program	30,526	43,726
Insurance	15,121	15,540
Advertising	14,157	6,105
Office	11,673	26,367
Telephone	4,545	5,218
Interest and bank charges	818	1,043
Postage and courier	655	1,287
	<u>824,385</u>	<u>856,908</u>
(DEFICIENCY) SURPLUS OF REVENUES OVER EXPENDITURES	<u>(556)</u>	<u>2,742</u>
OTHER		
Gain (loss) on Investment in Empower Cleaning Inc. (note 7)	3	(3,551)
Unrealized gain on Capital Reserve held by Infrastructure Ontario	856	3,877
	<u>859</u>	<u>326</u>
NET REVENUES OVER EXPENDITURES for the year	<u>\$ 303</u>	<u>\$ 3,068</u>

SUPPORTIVE HOUSING OF WATERLOO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Net revenues over expenditures for the year	\$ 303	\$ 3,068
Items not requiring an outlay of cash		
Amortization	46,732	33,125
Amortization of deferred capital contributions	(35,739)	(28,170)
Loss on investment in Empower Cleaning Inc.	(3)	3,551
Unrealized gain on Infrastructure Ontario investments	<u>(856)</u>	<u>(3,877)</u>
	10,437	7,697
Changes in non-cash working capital		
Accounts receivable	6,318	(11,120)
Prepaid expenses	7,698	7,662
HST receivable	12,205	(29,522)
Accounts payable and accrued liabilities	3,830	7,941
Government remittances payable	(800)	(3,649)
Unearned revenue	<u>903</u>	<u>(104,018)</u>
	<u>40,591</u>	<u>(125,009)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Loan - Infrastructure Ontario	(10,234)	(9,755)
Additions to deferred capital contributions	<u>508,500</u>	<u>0</u>
	<u>498,266</u>	<u>(9,755)</u>
CASH USED IN INVESTING ACTIVITIES		
Additions to capital assets	(158,066)	(140,698)
Investment in Empower Cleaning Inc.	(7,445)	(4,370)
Capital reserve held by Infrastructure Ontario	<u>(7,737)</u>	<u>(7,736)</u>
	<u>(173,248)</u>	<u>(152,804)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	365,609	(287,568)
NET CASH AND CASH EQUIVALENTS, beginning of year	<u>420,303</u>	<u>707,871</u>
NET CASH AND CASH EQUIVALENTS, end of year	<u>\$ 785,912</u>	<u>\$ 420,303</u>
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash	\$ 784,154	\$ 59,404
Short term investments	<u>1,758</u>	<u>360,899</u>
	<u>\$ 785,912</u>	<u>\$ 420,303</u>

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. NATURE OF ORGANIZATION

Supportive Housing of Waterloo is a not for profit organization incorporated under the laws of Ontario without share capital on June 1, 2007. It is a registered charity under the Income Tax Act and is exempt from income tax. Its mission is to develop decent, affordable housing complete with support service in the city of Waterloo for people who are homeless or hard to house.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not for profit organizations and include the following significant accounting policies:

(a) REVENUE RECOGNITION

The organization follows the deferral method of accounting for contributions. Externally restricted contributions, including funding from the Region of Waterloo and grants from the Government of Canada are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income, which includes interest income, is recognized as revenue over the period earned.

Rental revenue is recognized over the term of the rental agreement as the housing is provided and collection is reasonably assured. Other income is recognized when earned and collection is reasonably assured.

(b) DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent donations for capital costs of construction. They are recognized as revenue on the same basis as capital assets are amortized.

(c) INVESTMENT IN EMPOWER CLEANING INC.

The organization issues only non-consolidated financial statements and accounts for its investment in the 100% owned for profit subsidiary using the equity method.

(d) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles for not for profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring management's estimates include the useful lives of property, plant and equipment and amortization of deferred capital contributions. Actual results could differ from those estimates.

(e) CONTRIBUTED MATERIALS AND SERVICES

During the year, a number of organizations and individuals donate materials to the organization and a number of volunteers contribute a significant amount of their time. Because of the difficulty in determining the fair value, contributed materials and services are not recorded in the financial statements.

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and amortized on the basis of their estimated useful life using the following methods and rates:

Buildings	- 40	years straight line basis
Vehicles	- 5	years straight line basis
Furniture and fixtures	- 5	years straight line basis
Accessibility renovations	- 5	years straight line basis

During the year, the organization changed how it estimated amortization for buildings, vehicles and furniture and fixtures, from double-declining balance to straight-line amortization.

(g) FINANCIAL INSTRUMENTS

Measurement of financial instruments

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

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for short term investments and capital reserve held by Infrastructure Ontario, which are measured at fair value. Changes in fair value are recognized in net surplus.

Financial assets measured at amortized cost include cash, accounts receivable and investment in Empower Cleaning Inc.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, unearned revenue, callable debt and Infrastructure Ontario loan.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. If an impairment has occurred, the carrying amount of financial assets measured at amortized cost is reduced to the greater of the discounted future cash flows expected or the proceeds that could be realized from the sale of the financial asset. The amount of the write-down is recognized in net surplus. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net surplus.

Transaction costs

The organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

3. FINANCIAL INSTRUMENTS

Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, credit, currency, liquidity, or other price risks arising from their financial instruments.

The extent of the organization's exposure to these risks did not change in 2017 compared to the previous period.

The organization does not have a significant exposure to any individual customer or counterpart.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2017	Net 2016
Property under development				
- 402 Erb St. W.	\$ 635,529	\$ 0	\$ 635,529	\$ 478,219
Land - 362 Erb St. W.	896,088	0	896,088	896,088
Building - 362 Erb. St. W.	3,752,760	153,631	3,599,129	3,620,296
Vehicles	18,094	10,133	7,961	11,580
Furniture and fixtures	79,024	66,564	12,460	27,356
Accessibility renovations	31,467	25,174	6,293	12,587
Less: Forgivable loan (note 8)	<u>(3,600,000)</u>	<u>0</u>	<u>(3,600,000)</u>	<u>(3,600,000)</u>
	<u>\$ 1,812,962</u>	<u>\$ 255,502</u>	<u>\$ 1,557,460</u>	<u>\$ 1,446,126</u>

During the year, the organization capitalized interest in the amount of \$11,200 (2016 - \$10,589) on the property under development at 402 Erb St. W.

5. UNEARNED REVENUE

Unearned revenue, which consists of the unexpended portion of government funding and donations received that relate to future periods less related expenditures, is as follows:

	2017	2016
Balance, beginning of the year	\$ 91,666	\$ 195,684
Plus amount received during the year	94,628	78,351
Less amount recognized as revenue in the year	<u>(93,725)</u>	<u>(182,369)</u>
Balance, end of year	<u>\$ 92,569</u>	<u>\$ 91,666</u>

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6. LONG TERM DEBT

	2017	2016
Infrastructure Ontario mortgage payable, due March 15, 2051, repayable in blended monthly instalments of \$1,505 including interest charged at 4.624%, secured by land and building, with a carrying value of \$4,495,217	\$ 308,043	\$ 311,896
Infrastructure Ontario mortgage payable, due March 15, 2051, repayable in blended monthly instalments of \$2,747 including interest charged at 4.919%, secured by land and building, with a carrying value of \$4,495,217	542,381	548,762
Term facility, due on demand, interest at prime+0.5% per annum, secured by property, with a carrying value of \$635,529	<u>330,000</u>	<u>330,000</u>
	<u>1,180,424</u>	<u>1,190,658</u>
Less current portion:		
Cash repayments required within 12 months	10,732	10,234
Callable debt	<u>330,000</u>	<u>330,000</u>
	<u>340,732</u>	<u>340,234</u>
	<u>\$ 839,692</u>	<u>\$ 850,424</u>

Management does not believe that the demand features of the callable debt will be exercised in the current period. Assuming payment of the callable debt is not demanded, regular principal payments required on all long term debt for the next five years are due as follows:

2018	\$ 10,732
2019	11,255
2020	11,802
2021	12,377
2022	<u>12,979</u>
	<u>\$ 59,145</u>

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

7. INVESTMENT IN EMPOWER CLEANING INC.

Supportive Housing of Waterloo is the sole shareholder of Empower Cleaning Inc., a for profit, social enterprise that seeks to enhance the well-being of people in Southwestern Ontario through providing quality cleaning and support services. Empower Cleaning Inc. was incorporated under the Ontario Business Corporations Act on August 28, 2015.

Empower Cleaning Inc. has not been consolidated in the organization's financial statements. The organization uses the equity method to account for this investment.

Included in other income is a recovery of management administration expenses for \$7,700 (2016 - \$2,864). This transaction is recorded at exchange value of the management services provided.

The investment in Empower Cleaning Inc. is as follows:

	2017	2016
Share Capital	\$ 1	\$ 1
Funds advanced	24,541	17,096
Loss on equity	<u>(11,826)</u>	<u>(11,829)</u>
	<u>\$ 12,716</u>	<u>\$ 5,268</u>

The financial statement summary of Empower Cleaning Inc. as at December 31, 2017 is as follows:

Balance Sheet

	2017	2016
Assets	<u>\$ 18,796</u>	<u>\$ 12,213</u>
Liabilities	\$ 30,621	\$ 24,041
Shareholder's deficit	<u>(11,825)</u>	<u>(11,828)</u>
	<u>\$ 18,796</u>	<u>\$ 12,213</u>

Results of Operations

	2017	2016
Revenues	\$ 44,030	\$ 46,442
Operating expenses	<u>44,027</u>	<u>49,993</u>
Net gain (loss)	<u>\$ 3</u>	<u>\$ (3,551)</u>

Cash Flows

	2017	2016
Cash from operations	\$ 11,776	\$ (5,304)
Cash used in financing and investing activities	<u>0</u>	<u>4,370</u>
Increase (decrease) in cash	<u>\$ 11,776</u>	<u>\$ (934)</u>

SUPPORTIVE HOUSING OF WATERLOO
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

8. DEFERRED CAPITAL CONTRIBUTIONS

	2017	2016
Balance, beginning of year	\$ 652,751	\$ 680,921
Plus additions during the year	508,500	0
Less amount amortized in the period	<u>(35,739)</u>	<u>(28,170)</u>
Balance, end of year	<u>\$ 1,125,512</u>	<u>\$ 652,751</u>

In 2009, the organization was approved to receive funding in the amount of \$3,600,000 by Her Majesty the Queen in Right of Ontario as represented by the Minister of Municipal Affairs and Housing for the purchase of capital assets. The full amount of funding was received by July 23, 2010. These funds are subject to terms and conditions stipulated by related agreement. As long as the organization is in compliance with these terms and conditions, the amount of interest on the loan is forgiven. If the organization continues to be in compliance until June 30, 2030, the principal amounts shall be forgiven at that time. As at the current year end, interest in the amount of \$284,040 (2016 - \$284,040) has been forgiven for total cumulative interest forgiven of \$1,988,280 (2016 - \$1,704,240).

The principal amounts referred to above have been included as an offset to property, plant and equipment (note 4). Each year, the interest expense is reflected in these statements and the forgiveness of interest is recognized as an offsetting amount.

During 2016, the organization was approved to receive funding in the amount of up to \$1,130,000 by the Regional Municipality of Waterloo - Affordable Housing Strategy Investment in Affordable Housing for Ontario Program for the construction of nine new affordable rental units at 402 Erb St. West, Waterloo. As at year end, \$508,500 (2016 - \$0) of these funds have been received. These funds are subject to terms and conditions stipulated by the related agreement. As long as the organization is in compliance with these terms and conditions, the principal and interest amounts shall be forgiven.

9. CONTINGENT LIABILITY

The organization commenced a claim against the general contractor, architect, engineers, and a subcontractor concerning certain construction work performed in the construction of the apartment building located at 362 Erb Street West, Waterloo. Within this claim, two of the defendants launched a counterclaim for contribution and indemnity for any amounts which those defendants may be found responsible. There is no specific amount attached to this counterclaim and, as such, no amount is estimable. Accordingly, no amount has been recorded in the financial statements for this contingent liability.