

Financial Statements of

**KINGSTON & FRONTENAC
HOUSING CORPORATION**

Year ended December 31, 2010

KINGSTON & FRONTENAC HOUSING CORPORATION

Financial Statements

Year ended December 31, 2010

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Management's Responsibility for the Consolidated Financial Statements

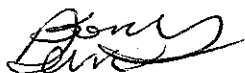
The accompanying consolidated financial statements of Kingston and Frontenac Housing Corporation (the "Corporation") are the responsibility of the Corporation's management and have been prepared in compliance with legislation, and in accordance with public sector accounting standards for local governments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

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

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

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


Mary Lynn Cousins Brame
Chief Executive Officer


Dan Song
Finance & Administration Manager



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Kingston and Frontenac Housing Corporation ("the Corporation"), which comprise the statement of financial position as at December 31, 2010, the statements of operations and accumulated surplus, change in net financial assets (net debt) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kingston and Frontenac Housing Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 28, 2011

Kingston, Canada

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Financial Position

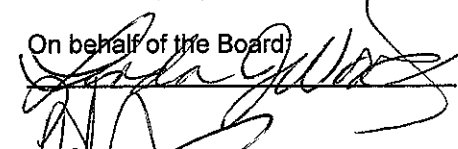
December 31, 2010, with comparative figures for 2009

	2010	2009
Financial assets:		
Current assets:		
Cash and cash equivalents (notes 4 and 5)	\$ 1,197,754	\$ 1,979,890
Rents receivable	45,751	53,201
Other receivables	497,611	312,843
Receivable from the Corporation of the City of Kingston – subsidy paid (note 6)	80,579	-
	<u>1,821,695</u>	<u>2,345,934</u>
Long-term investments (notes 2 and 4)	1,811,323	1,015,957
	<u>3,633,018</u>	<u>3,361,891</u>
Financial liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	711,856	551,241
Accrued payroll and employee benefits	107,287	96,581
Current portion of long-term debt (note 3)	94,855	89,915
Prepaid rents	104,447	87,210
Deferred grant revenue	248,187	-
Subsidy paid in advance	485,096	454,647
Payable to the Corporation of the City of Kingston - subsidy recovered (note 6)	-	133,294
	<u>1,751,728</u>	<u>1,412,888</u>
Long-term debt (note 3)	4,724,240	4,819,095
	<u>6,475,968</u>	<u>6,231,983</u>
Net financial debt	(2,842,950)	(2,870,092)
Non-financial assets:		
Tangible capital assets (note 11)	38,568,548	37,464,379
Prepaid expenses	177,096	147,337
	<u>38,745,644</u>	<u>37,611,716</u>
Accumulated surplus (note 12)	\$ 35,902,694	\$ 34,741,624

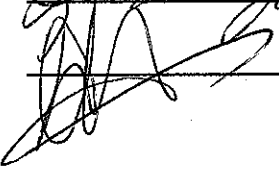
Contingent liabilities (note 6 and note 9)

See accompanying notes to financial statements.

On behalf of the Board



Director



Director

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Operations and Accumulated Surplus

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

	2010 Budget (Unaudited, note 7)	2010 Operating	2010 Affordable Housing Program	2010 Total	2009 Total
Revenue:					
Rents	\$ 3,134,242	\$ 2,675,273	\$ 348,085	\$ 3,023,358	\$ 3,107,217
Non-residential rents	111,104	—	111,104	111,104	110,004
Government grants	—	904,360	6,820	911,180	660,047
Local housing subsidy (note 13)	3,831,073	3,960,963	—	3,960,963	3,705,892
Rent supplement Homelessness	2,746,044	2,718,462	—	2,718,462	2,677,186
supplement	466,805	466,805	—	466,805	468,000
Subsidiary adjustment prior year	—	13,373	—	13,373	—
Non-rental revenue	89,850	81,519	16,393	97,912	94,068
Province of Ontario grant	167,945	—	167,945	167,945	167,945
Interest income	6,100	56,154	8,064	64,218	75,135
	10,553,163	10,876,909	658,411	11,535,320	11,065,494
Expenditure:					
Salaries and benefits	1,579,463	1,621,037	45,000	1,666,037	1,515,445
Interest	260,973	—	260,753	260,753	265,447
Transportation and communication	80,832	72,634	167	72,801	66,237
Insurance	211,798	183,356	9,000	192,356	183,522
Rent	111,104	111,104	—	111,104	110,004
Legal	39,481	173,323	—	173,323	80,777
Professional services	86,221	70,001	4,900	74,901	30,507
Materials and services operating	996,525	965,537	40,470	1,006,007	949,973
Municipal taxes	1,505,158	1,462,806	32,378	1,495,184	1,568,194
Utilities	770,660	656,711	56,471	713,182	767,175
Bad debts	40,000	31,225	—	31,225	23,792
Bank charges	15,920	13,054	591	13,645	12,161
Sundry supplies	47,461	51,544	—	51,544	38,578
Rent supplement program costs	3,212,849	3,185,267	—	3,185,267	3,145,186
Capital expenditures	1,445,364	403,854	—	403,854	301,355
	10,403,809	9,001,453	449,730	9,451,183	9,058,353
Excess of revenue over expenditure	149,354	1,875,456	208,681	2,084,137	2,007,141
Amortization expense	106,596	729,657	193,410	923,067	1,006,498
Annual surplus	42,758	1,145,799	15,271	1,161,070	1,000,643
Accumulated surplus, beginning of year		30,166,147	4,575,477	34,741,624	33,740,981
Accumulated surplus, end of year		\$ 31,311,946	\$ 4,590,748	\$ 35,902,694	\$ 34,741,624

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Change in Net Financial Assets (Net Debt)

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

	2010	2009
Annual surplus	\$ 1,161,070	\$ 1,000,643
Acquisition of tangible capital assets	(2,027,236)	(1,725,170)
Amortization of tangible capital assets	923,067	1,006,498
Change in prepaid expense	(29,759)	13,764
Net change in net financial assets	27,142	295,735
Net financial assets (net debt), beginning of year	(2,870,092)	(3,165,827)
Net financial assets (net debt), end of year	\$ (2,842,950)	\$ (2,870,092)

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Statement of Cash Flows

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

	2010	2009
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 1,161,070	\$ 1,000,643
Amortization, which does not involve cash	923,067	1,006,498
	<u>2,084,137</u>	<u>2,007,141</u>
Change in non-cash assets and liabilities:		
Decrease in rents receivable	7,450	3,776
Increase in other receivables	(184,768)	(178,522)
Decrease (increase) in prepaid expenses	(29,759)	13,764
Increase in receivable from the Corporation of the City of Kingston	(80,579)	-
Increase in accounts payable and accrued liabilities	160,615	263,428
Increase in accrued payroll and employee benefits	10,706	18,545
Increase in prepaid rents	17,237	3,787
Increase in deferred grant revenue	248,187	-
Increase in subsidy paid in advance	30,449	3,181
Increase (decrease) in payable to the Corporation of the City of Kingston	(133,294)	15,962
	<u>46,244</u>	<u>143,921</u>
	<u>2,130,381</u>	<u>2,151,062</u>
Capital activities:		
Cash used to acquire tangible capital assets	(2,027,236)	(1,725,170)
Financing activities:		
Principal repayment	(89,915)	(85,232)
Investing activities:		
Increase in investments	(795,366)	(219,342)
Net change in cash and cash equivalents	(782,136)	121,318
Cash and cash equivalents, beginning of year	1,979,890	1,858,572
Cash and cash equivalents, end of year	<u>\$ 1,197,754</u>	<u>\$ 1,979,890</u>

The Housing Corporation considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

See accompanying notes to financial statements.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements

Year ended December 31, 2010

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

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

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by Kingston & Frontenac Housing Corporation are as follows:

(a) Basis of accounting:

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

(b) Funding arrangements:

Kingston & Frontenac Housing Corporation rent geared to income program is funded primarily by the Corporation of the City of Kingston as Consolidated Municipal Service Manager ("CMSM"), in accordance with budget arrangements formerly established by Ministry of Municipal Affairs and Housing and the Corporation of the City of Kingston. These financial statements reflect agreed arrangements approved by the Corporation of the City of Kingston with respect to the year ended December 31, 2010.

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

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

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(d) Long-term investments:

Long-term investments are designated as held-for-trading and are recorded at their fair value. Realized investment income and unrealized gains or losses from the change in fair value are recorded in the capital reserve fund. Fair value is determined at quoted market prices. Transaction costs related to the acquisition of marketable securities are recorded as a reduction of investment income.

(e) Use of estimates:

The preparation of financial statements in conformity with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditure during the period. Significant estimates include the amount of Municipal rent geared to income program subsidiary revenue earned and useful lives of tangible capital assets. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements, in the period in which they become known.

(f) Non-financial assets:

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

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight-line basis over their estimated useful lives as follows:

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

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

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(f) Non-financial assets (continued):

(ii) Contributions of tangible capital assets:

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

2. Long-term investments:

The market value of long-term investments as at December 31, 2010 is \$1,811,323 (2009 - \$1,015,957), with a portion of this amount relating to the Affordable Housing Project of \$701,181 (2009 - \$Nil).

3. Affordable housing program long-term debt:

	2010	2009
5.421% Mortgage payable in monthly blended instalments of \$29,240, due February 1, 2028	\$ 4,819,095	\$ 4,909,010
Current portion of long-term debt	94,855	89,915
	<u>\$ 4,724,240</u>	<u>\$ 4,819,095</u>

The minimum scheduled principal repayments are as follows: 2011 - \$94,855; 2012 - \$100,067; 2013 - \$105,565; 2014 - \$111,365; 2015 - \$117,484; and 2016 and thereafter \$4,289,759.

The mortgage is secured by the following:

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

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Rent geared to income capital reserve fund:

In compliance with the Social Housing Reform Act, 2000 ("SHRA") section 93(1), a capital reserve fund is maintained for the purpose of funding major asset repairs and replacement and amounts are allocated to it as provided for in the Corporation's budget. The capital reserve fund cash balances are designated from cash balances available for current operations and interest earned on these funds and on reserve fund investments are returned to the capital reserve fund.

	2010	2009
Balance, beginning of year	\$ 1,059,876	\$ 953,538
Allocation from operation	1,400,000	1,400,000
Other grants	904,360	—
Expenditures	(2,424,271)	(1,356,082)
	(119,911)	43,918
Investment income	35,617	31,150
Unrealized gain on investments	14,648	31,270
	50,265	62,420
Excess of revenue over expenditure	(69,646)	106,338
Balance, end of year	\$ 990,230	\$ 1,059,876

Cash and cash equivalents and long-term investments in the amount of \$1,110,141 (2009 - \$1,015,957) have been designated to support the rent geared to income capital reserve fund and have not been adjusted for year-end outstanding transfers.

5. Affordable housing program reserve fund:

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

	2010	2009
Balance, beginning of year	\$ 90,734	\$ 45,367
Net transfer to/from operating	(45,323)	45,367
Excess of revenue over expenditure	(45,323)	45,367
Balance, end of year	\$ 45,411	\$ 90,734

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Municipal subsidy payable/receivable:

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

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

An amount receivable from the Corporation of the City of Kingston of \$80,579 (2009 – amount payable of \$133,296) has been reported on the statement of financial position with respect to an estimate of the subsidy revenue to be paid by the CMSM as follows:

	Operating	Rent Supplement	2010	2009
Subsidy advances received	\$ 3,866,686	\$ 3,079,044	\$ 6,945,730	\$ 6,867,040
Allowable expenditures	3,960,963	3,185,267	7,146,230	6,851,078
Payable to (receivable from) the Corporation of the City of Kingston	(94,277)	27,582	(66,695)	15,962
Prior year underpayment of subsidy	(13,884)	–	(13,884)	–
	\$ (108,161)	\$ 27,582	\$ (80,579)	\$ 133,294

7. Budget figures:

The Corporation reviews the operating and capital budgets annually. The budget figures are reflected in the statement of operations and have not been audited and are provided for information purposes only.

Amortization, based on the implementation of tangible capital assets, was not contemplated on development of the budget and, as such, has not been included.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

8. Pension agreements:

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS) which is a multi-employer plan, on behalf of 25 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2010 was \$71,888 (2009 - \$66,405) for current service and is included as an expenditure on the statement of revenue, expenditure and surplus (deficit).

9. Contingent liabilities:

The nature of the Corporation's activities is such that there may be litigation pending or in prospect at any time. With respect to claims as at December 31, 2010, management believes that the Corporation has valid defenses and appropriate insurance coverage in place. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material effect on the Corporation's financial position.

10. Fair value of financial instruments:

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

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

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

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

11. Tangible capital assets:

(a) Assets under construction:

Assets under construction having a value of \$40,737 (2009 - \$210,830) have not been amortized. Amortization of these assets will commence when the asset is put into service.

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

11. Tangible capital assets (continued):

(b) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

Cost	Balance December 31, 2009	Additions	Dispositions	Balance December 31, 2010
Land - Rent Geared to Income	\$ 10,263,290	\$ -	\$ -	\$ 10,263,290
Land - Affordable Housing	342,000	-	-	342,000
Land improvement - Rent Geared to Income	1,689,457	129,117	-	1,818,574
Land improvement - Affordable Housing	120,630	-	-	120,630
Building - Rent Geared to Income	23,822,172	2,068,212	-	25,890,384
Building - Affordable Housing	7,400,877	-	-	7,400,877
Assets under construction - Rent Geared to Income	176,912	-	176,911	-
Assets under construction - Affordable Housing	33,918	6,819	-	40,737
	\$ 43,849,256	\$ 2,204,148	\$ 176,911	\$ 45,876,492

Accumulated amortization	Balance December 31, 2009	Disposals	Amortization	Balance December 31, 2010
Land improvement - Rent Geared to Income	\$ 365,113	\$ -	\$ 60,619	\$ 425,732
Land improvement - Affordable Housing	8,042	-	4,021	12,063
Building - Rent Geared to Income	5,632,945	-	669,038	6,301,983
Building - Affordable Housing	378,777	-	189,389	568,166
	\$ 6,384,877	\$ -	\$ 923,067	\$ 7,307,944

	Net book value December 31, 2009	Net book value December 31, 2010
Land - Rent Geared to Income	\$ 10,263,290	\$ 10,263,290
Land - Affordable Housing	342,000	342,000
Land improvement - Rent Geared to Income	1,324,344	1,392,842
Land improvement - Affordable Housing	112,588	108,567
Building - Rent Geared to Income	18,189,227	19,588,401
Building - Affordable Housing	7,022,100	6,832,711
Assets under construction - Rent Geared to income	176,912	-
Assets under construction - Affordable Housing	33,918	40,737
	\$ 37,464,379	\$ 38,568,548

KINGSTON & FRONTENAC HOUSING CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2010

12. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserve funds as follows:

	2010	2009
Surplus:		
Operating surplus (deficit) - Rent Geared to Income	\$ (33,264)	\$ 54,424
Operating surplus - Affordable Housing	328,074	152,100
Total surplus	294,810	206,524
Invested in capital assets - Rent Geared to Income	31,244,533	29,953,773
Capital expenses	(182,372)	(98,011)
Invested in tangible capital assets – Affordable Housing:		
Tangible capital assets	7,324,015	7,510,606
Long-term debt	(4,819,095)	(4,909,010)
Unexpended capital financing	758,096	758,096
Capital grant – mortgage	247,066	169,036
Total invested in tangible capital assets – Affordable Housing	3,510,082	3,528,728
Reserve fund:		
Rent geared to income capital reserve fund	990,230	1,059,876
Affordable housing reserve fund	45,411	90,734
	1,035,641	1,150,610
	\$ 35,902,694	\$ 34,741,624

13. Local housing subsidy:

Rent supplement administration subsidy of \$148,825 received from the City of Kingston was included with the 2010 local housing subsidy.