

Centretown Citizens Housing Co-operative Inc.



Financial Statements For the year ended December 31, 2019

Centretown Citizens Housing Co-operative Inc.
Financial Statements
For the year ended December 31, 2019

Contents

Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Changes in Deficiency of Net Assets	4
Statement of Operations	5
Statement of Cash Flows	6
Summary of Significant Accounting Policies	7
Notes to Financial Statements	10

Independent Auditor's Report

**To the Members of
Centretown Citizens Housing Co-operative Inc.**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Centretown Citizens Housing Co-operative Inc. (the "Co-operative") which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in deficiency of net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at December 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with the financial reporting provisions of the operating agreement dated January 1, 1990 between Centretown Citizens Housing Co-operative Inc. and Canada Mortgage and Housing Corporation.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to the summary of significant accounting policies accompanying the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Centretown Citizens Housing Co-operative Inc. to comply with the reporting provisions of the operating agreement referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of Centretown Citizens Housing Co-operative Inc. and Canada Mortgage and Housing Corporation and should not be used by parties other than the Directors of Centretown Citizens Housing Co-operative Inc. or Canada Mortgage and Housing Corporation.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of the operating agreement dated January 1, 1990 between Centretown Citizens Housing Co-operative Inc. and Canada Mortgage and Housing Corporation, 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. In preparing the financial statements, management is responsible for assessing the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Co-operative or to cease operations, or has no realistic alternative but to do so.

Responsibilities of Management and the Board of Director's for the Financial Statements (continued)

Those charged with governance are responsible for overseeing the Co-operative's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the Ontario Co-operative Corporations Act, we report that, in our opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

Baker Tilly Ottawa LLP

Chartered Professional Accountants, Licensed Public Accountants
April 29, 2020
Ottawa, Ontario

Centretown Citizens Housing Co-operative Inc.
Statement of Financial Position

December 31	2019	2018
Assets		
Current		
Cash	\$ 129,423	\$ 118,095
Accounts receivable (Note 1)	3,789	10,184
CMHC subsidy receivable	6,607	6,629
	139,819	134,908
Tangible capital assets (Note 2)	287,735	445,722
	\$ 427,554	\$ 580,630

Liabilities and Deficiency of Net Assets

Current		
Accounts payable and accrued liabilities	\$ 5,768	\$ 5,751
CMHC subsidy payable	8,706	12,240
Accrued mortgage interest payable	1,125	2,095
Unearned rent-supplement advance	11,300	11,600
Deferred revenue	12,894	10,188
Due to a corporation under common control (Note 3)	414,770	442,234
Current portion of mortgage payable (Note 4)	156,017	144,819
	610,580	628,927
Deferred contributions related to tangible capital assets (Note 5)	96,741	109,640
Mortgage payable (Note 4)	34,977	191,264
Capital replacement reserve (Note 6)	21,295	2,243
Security of tenure reserve (Note 7)	6,839	5,553
Deficiency of net assets	(342,878)	(356,997)
	\$ 427,554	\$ 580,630

On behalf of the Board:

_____ Director _____ Director

Centretown Citizens Housing Co-operative Inc.
Statement of Changes in Deficiency of Net Assets

For the year ended December 31	2019	2018
Balance, beginning of year	\$ (356,997)	\$ (361,693)
Excess of revenue over expenses for the year	<u>14,119</u>	<u>4,696</u>
Balance, end of year	\$ (342,878)	\$ (356,997)

Centretown Citizens Housing Co-operative Inc. Statement of Operations

For the year ended December 31

2019

2018

	Budget	Actual	Actual
Revenue			
Housing charges - market rent	\$ 330,720	\$ 330,558	\$ 326,263
Subsidies to tenants	(130,088)	(126,384)	(127,614)
Rent before vacancy cost	200,632	204,174	198,649
Less: Vacancy costs	(12,503)	(1,616)	(4,123)
Rent received from tenants	188,129	202,558	194,526
Rent supplement	126,936	126,384	125,528
Federal co-op assistance	79,558	79,376	79,520
Laundry	6,382	8,395	7,030
Parking	5,760	7,744	6,042
Security of tenure used	3,152	-	2,086
Amortization of deferred contribution related to tangible capital assets (Note 5)	-	12,899	12,899
Sundry	864	936	929
	410,781	438,292	428,560
Expenses			
Administration	46,127	48,239	48,258
Amortization of capital assets	144,654	157,988	148,884
Appropriation to capital replacement reserve (Note 6)	12,367	12,367	12,367
Appropriation to security of tenure reserve	1,407	1,286	1,407
Bad debts	3,000	(274)	7,430
Bank charges	-	52	131
Heat	2,382	1,592	671
Hydro	6,182	6,427	5,901
Insurance	4,964	5,092	4,809
Interest	6,822	6,822	6,822
Maintenance and repairs	97,164	96,621	95,784
Miscellaneous	5,000	31	110
Mortgage interest paid	20,411	18,693	28,514
Municipal taxes	43,470	43,791	42,328
Professional fees	1,500	9,898	3,979
Sales taxes	1,200	1,399	1,756
Water	14,016	14,149	14,713
	410,666	424,173	423,864
Excess of revenue over expenses for the year	\$ 115	\$ 14,119	\$ 4,696

Centretown Citizens Housing Co-operative Inc. Statement of Cash Flows

For the year ended December 31	2019	2018
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 14,119	\$ 4,696
Adjustments for		
Amortization of tangible capital assets	157,988	148,884
Appropriation to capital replacement reserve	12,367	12,367
Capital replacement expenditures	(1,715)	(10,124)
Appropriation to security of tenure reserve	1,286	1,407
Additional capital replacement reserve funding	8,400	-
Security of tenure reserve used	-	(2,086)
Amortization of deferred contribution related to tangible capital assets	(12,899)	(12,899)
	179,546	142,245
Changes in non-cash working capital items		
Accounts receivable	6,395	19,126
CMHC subsidy receivable	22	3,037
GST/HST rebate receivable	(3,534)	12,240
Accounts payable and accrued liabilities	16	(9,259)
Due to a corporation under common control	(27,464)	(21,291)
Accrued mortgage interest payable	(970)	(497)
Unearned rent-supplement advance	(300)	600
Deferred revenue	2,706	(665)
	156,417	145,536
Cash flows from financing activities		
Repayment of mortgage payable	(145,089)	(135,985)
Increase in cash during the year	11,328	9,551
Cash, beginning of year	118,095	108,544
Cash, end of year	\$ 129,423	\$ 118,095

Centretown Citizens Housing Co-operative Inc. Summary of Significant Accounting Policies

December 31, 2019

Nature of Organization The Co-operative is incorporated without share capital under the Ontario Co-operative Corporations Act and operates a non-profit housing project in Ottawa under an agreement with the Canada Mortgage and Housing Corporation (CMHC). The Co-operative qualifies as a not-for-profit organization as defined in section 149(I)(L) of the Income Tax Act and accordingly is exempt from income taxes.

Basis of Accounting These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the operating agreement dated January 1, 1990 with Canada Mortgage and Housing Corporation. The basis of accounting used in these financial statements materially differs from Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO) because:

- a) amortization is not provided on buildings purchased from mortgages recognized by CMHC over the estimated useful lives of these assets, but rather land, building and related assets purchased from mortgages are being amortized at a rate equal to the annual principal reduction of the mortgages;
- b) capital assets purchased from accumulated surplus are charged to operations in the year the expense is incurred, with the exception of Building Renovations, which are being amortized over 10 years on a straight-line basis, with half-rate in the year of acquisition;
- c) capital assets purchased from the capital replacement reserve are charged against the replacement reserve account rather than being capitalized on the statement of financial position and amortized over their estimated useful lives; and
- d) reserves for future capital replacement and security of tenure are appropriated annually from operations, as determined by CMHC in direct proportion to the change in the required monthly payment of the mortgage loan. Interest earned on monies held in the capital replacement reserve is credited directly to the reserve.

The following are in accordance with ASNPO.

Financial Instruments Measurement of financial instruments

Financial instruments are financial assets or liabilities of the Co-operative where, in general, the Co-operative has the right to receive cash or another financial asset from another party or the Co-operative has the obligation to pay another party cash or other financial assets.

The Co-operative initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions which are measured at the exchange amount.

Centretown Citizens Housing Co-operative Inc. Summary of Significant Accounting Policies

December 31, 2019

Financial Instruments (continued)

Measurement of financial instruments (continued)

The Co-operative subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in the fair value of restricted financial instruments are recognized in the appropriate reserve.

Changes in fair value of unrestricted financial instruments are recognized in excess of revenue over expenses.

Financial assets and financial liabilities measured at amortized cost include cash, accounts receivable, CMHC subsidy receivable or repayable, accounts payable and accrued liabilities, accrued mortgage interest payable, due to a corporation under common control and mortgage payable.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in excess of revenue over expenses. 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 excess of revenue over expenses.

Transaction costs

The Co-operative recognizes its transaction costs in excess of revenue over expenses 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.

Use of Estimates

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Co-operative's best information and judgment. The most significant asset where we must make an estimate is allowance for doubtful accounts receivable. If actual results differ from the estimate, the impact would be recorded in future periods.

Security of Tenure Reserve

The Co-operative is required to set aside certain funds annually for security of tenure. The amount is determined by CMHC and is in direct proportion to the changes in the required monthly mortgage payments. The funds accumulated in this reserve are to be used generally to assist households that are not in receipt of assistance under the Rent Supplements Program and for which regular occupancy charges exceed an acceptable measure of affordable shelter as defined by CMHC.

Centretown Citizens Housing Co-operative Inc. Summary of Significant Accounting Policies

December 31, 2019

Federal Co-operative Assistance

The agreement with CMHC provides monthly subsidy payments which approximate the forecasted difference between rental income and the rental income required to break even.

The funding is based upon Year One budgeted revenues and expenses which had been approved by CMHC, increasing each year by a rate of inflation less 2%.

Revenue Recognition

The Co-operative uses the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Housing charges, laundry, parking and sundry revenues are recorded as revenue when earned.

Investment income earned on the replacement reserve is recorded as a direct increase in the reserve. Investment income not earned on replacement reserve resources is recognized as revenue when earned.

Centretown Citizens Housing Co-operative Inc. Notes to Financial Statements

December 31, 2019

1. Accounts Receivable

	2019	2018
Members	\$ 1,690	\$ 2,021
HST receivable	2,099	1,913
Federal retrofit grant receivable	-	6,250
	\$ 3,789	\$ 10,184

2. Capital Assets

	2019	2018
Land	\$ 285,000	\$ 285,000
Buildings and related assets	1,731,631	1,731,631
Building renovations	128,988	128,988
	2,145,619	2,145,619
Less: Accumulated amortization	1,857,884	1,699,897
	\$ 287,735	\$ 445,722

3. Related Party Transactions

The Co-operative and Centretown Citizens Ottawa Corporation (CCOC) are common control organizations since they have the same Board of Directors.

During the year, the Co-operative paid CCOC \$48,239 (2018 - \$48,258) in administration charges, \$33,569 (2018 - \$44,773) in maintenance fees and \$6,822 (2018 - \$6,822) in interest.

CCOC handles most of the receipts and disbursements on behalf of the Co-operative.

All of these transactions were carried out in the normal course of operations and are recorded at the exchange value. This value corresponds to the consideration agreed upon by the parties and is determined on a cost recovery basis.

As at December 31, 2019, \$414,770 (2018 - \$442,234) is payable to CCOC. Included in this amount, is a balance of \$278,581, which bears interest at 2.46%.

Centretown Citizens Housing Co-operative Inc. Notes to Financial Statements

December 31, 2019

4. Mortgage Payable

The mortgage is an index-linked mortgage with an original principal balance of \$2,016,631. Under the index-linked mortgage arrangement, the mortgage payments in the initial years, when there is moderate to high inflation, do not cover the full amount of interest. The interest rate is determined and the payments are adjusted annually on May 1 in relation to the rate of inflation. Any unpaid interest is deferred and added to the balance owing on the mortgage and will be repaid once the mortgage payments are sufficient to cover interest expense for the year.

During the year ended December 31, 2019, there was no unpaid mortgage interest to defer.

The mortgage, which matures on May 1, 2023, has a fixed real interest rate of 4.84%, a current interest rate of 7.1756% (2018 - 7.5995%), payments of \$13,711 (2018 - \$13,755) per month, is secured by land and building, and is insured by CMHC.

Principal repayment for the next two years, if we assume the mortgage terms will remain constant, are as follows:

2020		\$	156,017
2021			34,977
			190,994
		\$	190,994

5. Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent restricted contributions with which the Co-operative's building renovations were originally financed. The changes in the deferred contributions balance for the year are as follows:

	2019	2018
Beginning balance	\$ 109,640	\$ 122,539
Less: Amounts amortized to revenue	(12,899)	(12,899)
Ending balance	\$ 96,741	\$ 109,640

The Co-operative received a total contribution of \$141,718 in 2017 from CMHC which is being amortized over a 10 year period. CMHC may request the Co-operative to register a collateral mortgage on the property. Should the Co-operative be in default of the affordability criteria under the terms of the contribution agreement within 10 years of signing the agreement, then the contribution amount, at the discretion of CMHC, will be immediately due and repayable. This contingency expires in April 2027.

Centretown Citizens Housing Co-operative Inc. Notes to Financial Statements

December 31, 2019

6. Capital Replacement Reserve

	2019	2018
Balance, beginning of year	\$ 2,243	\$ -
Appropriation for the year	12,367	12,367
Additional funding received	8,400	-
	23,010	12,367
Less: Capital expenses	(1,715)	(10,124)
Balance, end of year	\$ 21,295	\$ 2,243

7. Security of Tenure Reserve

	2019	2018
Balance, beginning of year	\$ 5,553	\$ 6,232
Appropriation for the year	1,286	1,407
Less: Amount used	-	(2,086)
Balance, end of year	\$ 6,839	\$ 5,553

8. Continuous Disclosure Requirements, Co-Operative Corporations Act (1990)

The aggregate remuneration to directors was nil.

The Co-operative did not transact business with any non-members during the period.

For the period ended December 31, 2019, less than 50% of the amount of rent and parking revenues were received from non-members of the Co-operative.

9. Subsequent Event

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Co-operative's environment and in the global markets, such as the potential deferral or uncollectibility of monthly occupancy charges from members could have a material impact on the Co-operative's operations. The extent of the impact of this outbreak and related containment measures on the Co-operative's operations cannot be reliably estimated at this time.

Centretown Citizens Housing Co-operative Inc. Notes to Financial Statements

December 31, 2019

10. Risks and Concentrations

The Co-operative is exposed to various risks through its financial instruments. The following analysis provides a measure of the Co-operative's risk exposure and concentrations as at December 31, 2019.

Credit risk

The Co-operative is exposed to credit risk in the event of non-payment by their members for their accounts receivable. The Co-operative provides credit to its members in the normal course of operations. The Co-operative continuously reviews the financial situation of its members and examines the credit history of all new members.

The Co-operative establishes allowances for doubtful accounts while keeping in mind the specific credit risk of each member, their historical tendencies and economic situation. There is no existing account receivable that represents a substantial risk for the Co-operative.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Co-operative is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Co-operative to a fair value risk while floating-rate instruments subject the Co-operative to a cash flow risk. The Co-operative does not use any derivative financial instruments to reduce the effects of these risks.

The Co-operative holds a mortgage which bears interest at a variable rate dependant on the Prime Rate. Consequently, the Co-operative's interest risk exposure is a function of the changes in the Prime Rate. However, a variation of 1% of the Prime Rate would not have a significant effect on the net earnings or the financial position of the Co-operative.

Changes in risk

There have been no significant changes in the Co-operative's risk exposures from those of the previous fiscal year.
