

Consolidated Financial Statements of

Housing Nova Scotia

March 31, 2020

Housing Nova Scotia

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Housing Nova Scotia

Management's Report

Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements of Housing Nova Scotia have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these consolidated financial statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Minister of Municipal Affairs and Housing is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Deputy Minister.

The external auditors, Grant Thornton LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to the financial management of Housing Nova Scotia and meet with them when required.

On behalf of Housing Nova Scotia



Lori Currie, CPA, CMA
Chief Financial Officer
Housing Nova Scotia



Nancy MacLellan, BA, MBA
Deputy Minister, Department of Municipal Affairs
and Housing

June 30, 2020

Date

Independent auditor's report

Grant Thornton LLP

Nova Centre, North Tower
Suite 1000, 1675 Grafton Street
Halifax, NS
B3J 0E9

T +1 902 421 1734
F +1 902 420 1068
www.GrantThornton.ca

To the Department of Municipal Affairs and Housing

Opinion

We have audited the consolidated financial statements of Housing Nova Scotia (the "Corporation"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated statement of financial position of Housing Nova Scotia as at March 31, 2020, and consolidated statement of its operations and accumulated surplus, changes in net debt, and its cash flows the year then ended in accordance with Canadian public sector accounting standards.

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 Consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Corporation'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 Corporation'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 consolidated 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 Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Grant Thornton LLP

Halifax, Canada
June 30, 2020

Chartered Professional Accountants

Housing Nova Scotia
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at March 31, 2020
(In thousands of dollars)

	<u>2020</u>	<u>2019</u>
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 76	\$ 72
Amounts receivable and advances (Note 3)	29,502	20,029
Loans and advances receivable (Note 4)	509,229	526,271
Fund for Future Social Housing Expenditures (Note 5)	33,032	26,002
	<u>\$ 571,839</u>	<u>\$ 572,374</u>
FINANCIAL LIABILITIES		
Bank advances	\$ 3,018	\$ 3,427
Accounts payable and accrued liabilities (Note 6)	60,007	90,740
Loans and other debt (Note 8)	647,134	666,804
Deferred revenue and other liabilities (Note 9)	59,013	41,946
Commitments and contingencies (Note 10)	3,936	4,152
	<u>\$ 773,108</u>	<u>\$ 807,069</u>
NET DEBT	<u>\$ (201,269)</u>	<u>\$ (234,695)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	\$ 215,719	\$ 244,129
Prepaid expenses	80	74
	<u>\$ 215,799</u>	<u>\$ 244,203</u>
ACCUMULATED SURPLUS	<u>\$ 14,530</u>	<u>\$ 9,508</u>

Commitments and Contingencies (Note 10)

See accompanying notes to the consolidated financial statements

Housing Nova Scotia

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the Year Ended March 31, 2020

(In thousands of dollars)

	2020 Budget	2020 Actual	2019 Actual
REVENUE			
Rental revenue	\$ 60,682	\$ 60,777	\$ 59,917
Interest revenue	23,557	23,126	23,784
Other revenue	9,017	9,605	10,488
Federal revenue (Note 12)	46,786	36,339	67,896
Provincial and Municipal revenue (Note 13)	71,434	81,344	61,349
Total revenue	<u>\$ 211,476</u>	<u>\$ 211,191</u>	<u>\$ 223,434</u>
EXPENSES			
Operating costs: Housing Authorities and Rural and Native Housing (Note 14)	\$ 123,668	\$ 132,728	\$ 132,592
Debt servicing costs	32,107	32,476	33,924
Housing Services Programs	21,212	21,180	22,430
Social Infrastructure Fund programs	9,588	2,949	11,780
Housing strategy	950	843	900
Social housing subsidies	18,024	14,276	13,607
Provision for doubtful accounts	725	618	443
Other expenses	1,038	1,099	761
Total expenses	<u>\$ 207,312</u>	<u>\$ 206,169</u>	<u>\$ 216,437</u>
ANNUAL SURPLUS (Note 2 n.)	4,164	5,022	6,997
ACCUMULATED SURPLUS, BEGINNING OF YEAR		<u>9,508</u>	<u>2,511</u>
ACCUMULATED SURPLUS, END OF YEAR		<u>\$ 14,530</u>	<u>\$ 9,508</u>

See accompanying notes to the consolidated financial statements

Housing Nova Scotia
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
For the Year Ended March 31, 2020
(In thousands of dollars)

	<u>2020</u> <u>Actual</u>	<u>2019</u> <u>Actual</u>
ANNUAL SURPLUS	\$ 5,022	\$ 6,997
Acquisition of tangible capital assets <i>(Note 11)</i>	(7,066)	(10,424)
Retirement of tangible capital assets <i>(Note 11)</i>	13,809	
Loss (gain) on disposal of tangible capital assets <i>(Note 11)</i>	163	(8)
Amortization of tangible capital assets <i>(Note 11)</i>	21,504	22,959
(Increase) decrease in prepaid expense	(6)	5
	\$ 28,404	\$ 12,532
CHANGE IN NET DEBT	\$ 33,426	\$ 19,529
NET DEBT, BEGINNING OF YEAR	\$ (234,695)	\$ (254,224)
NET DEBT, END OF YEAR	\$ (201,269)	\$ (234,695)

See accompanying notes to the consolidated financial statements

Housing Nova Scotia
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2020
(In thousands of dollars)

	2020	2019
	Actual	Actual
OPERATING TRANSACTIONS		
Annual surplus	\$ 5,022	\$ 6,997
Amortization	21,504	22,959
(Loss) gain on disposal of tangible capital asset	163	(8)
Changes in non-cash items:		
Amounts receivable	(9,473)	11,800
Prepays	(6)	5
Accounts payable and accrued liabilities	(16,924)	(5,508)
Deferred revenue and other liabilities	17,067	(12,704)
Deferred federal contribution	(7,030)	2,200
Provision for mortgage guarantees and indemnified loans	(216)	(113)
Cash (used in) provided by operating transactions	<u>\$ 10,107</u>	<u>\$ 25,628</u>
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets	<u>\$ (7,066)</u>	<u>\$ (10,424)</u>
INVESTING TRANSACTIONS		
Loans and advances repaid	\$ 49,098	\$ 44,516
Loans and advances issued	(31,632)	(32,960)
Cash applied to investing transactions	<u>\$ 17,466</u>	<u>\$ 11,556</u>
FINANCING TRANSACTIONS		
Bank advances and short term borrowings	(409)	\$ 264
Proceeds of long-term debt	47,452	47,412
Debt repayment	(72,910)	(71,293)
Change in Housing Development Fund note payable	5,364	(3,150)
Cash applied to financing transactions	<u>\$ (20,503)</u>	<u>\$ (26,766)</u>
INCREASE (DECREASE) IN CASH	<u>\$ 4</u>	<u>\$ (7)</u>
CASH, BEGINNING OF YEAR	<u>72</u>	<u>79</u>
CASH, END OF YEAR	<u><u>\$ 76</u></u>	<u><u>\$ 72</u></u>

See accompanying notes to the consolidated financial statements

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

1. Nature of Operations

Housing Nova Scotia ("HNS"), through the Housing Authorities (Note 2.b), provides more than 11,500 safe, affordable homes as part of its Public Housing program to more than 17,000 seniors and families.

HNS lends money to homeowners, landlords, co-operatives, non-profits and corporations that provide housing units, continuing care facilities and child care services.

Funding for HNS comes from rent from tenants, Canada Mortgage and Housing Corporation ("CMHC"), Nova Scotia municipal units and the Province of Nova Scotia. See Notes 5, 7, 8, 12 and 13 for more detail on levels of funding from government sources.

HNS is a corporation sole established by the Nova Scotia Housing Development Corporation Act of 1986 and was renamed Housing Nova Scotia by an amendment of that Act in 2013. HNS is a government unit which forms part of the consolidated entity of the Government of Nova Scotia. These consolidated statements include the results of the Housing Authorities, which include wages of operational staff. Management and administration roles are fulfilled by staff of the Department of Municipal Affairs and Housing. Accordingly, HNS does not have any direct employees.

Effective June 3, 2019, HNS and Municipal Affairs became one new department, the Nova Scotia Department of Municipal Affairs and Housing. Management and administration roles that were previously fulfilled by staff of the Department of Community Services will now be fulfilled by Municipal Affairs.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

These consolidated financial statements are prepared by management in accordance with Public Sector Accounting Standards ("PSAS") established by the Canadian Public Sector Accounting Board ("PSAB"), which sets out generally accepted accounting standards and principles for government organizations.

b. Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations controlled by HNS. These organizations are Cape Breton Island Housing Authority, Cobequid Housing Authority, Eastern Mainland Housing Authority, Metropolitan Regional Housing Authority, and Western Regional Housing Authority (Housing Authorities). All interorganizational transfers are eliminated on consolidation.

c. Cash and Cash Equivalents

Cash is comprised of petty cash and balances on deposit with financial institutions. Bank overdrafts are separately presented as bank advances on the consolidated statement of financial position.

d. Financial Instruments

A financial instrument is a contract establishing a financial instrument created, at its inception, rights and obligations to receive or deliver economic benefits. HNS recognizes a financial instrument when it becomes a party to a financial instrument contract.

The HNS financial instruments consist of cash and cash equivalents, amounts receivable and advances, loans and advances receivable, Fund for Future Social Housing Expenditures ("FFSHE") and Deferred Federal Contribution ("DFC"), bank advances, accounts payable and accrued liabilities, and loans and other debt.

All financial instruments are initially recognized at fair value and subsequently carried at cost or amortized cost using the effective interest rate method, less any impairment losses on financial assets.

d. Financial Instruments (*continued*)

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the financial instrument. Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or a financial liability.

HNS regularly assesses whether there are indicators of impairment. Impairment losses on financial assets measured at cost or amortized cost are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery by assessing the expected amount of future cash flows. Financial assets are then written down to net recoverable value with the write-down being recognized in the consolidated statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

e. Revenue Recognition

Rental revenue represents rent charged to tenants and is recorded when the service is provided in accordance with the terms of the lease agreements. Recoveries are recorded as received.

Interest revenue on loans and advances receivable is recorded on an accrual basis when it is earned over the terms and rates specified in lending agreements.

Revenue from the sale of land inventory and development properties is recognized in the period in which the transaction occurs, provided the earnings process is completed and the collection of the proceeds is reasonably assured.

Revenue from governments is recognized in accordance with government transfers accounting as outlined in part f of this note.

f. Government Transfers

Government transfers are transfers of monetary assets or tangible capital assets from a government entity to an individual, an organization or another government for which the government making the transfer does not receive any goods or services directly in return, as would occur in a purchase, sale or other exchange transaction; expect to be repaid in the future, as would be expected in a loan; or expect a direct financial return, as would be expected in an investment.

Government transfers where HNS is the transferring entity are recognized as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Where HNS is the recipient entity, a transfer without eligibility criteria or stipulations is recognized as revenue when the transfer is authorized. A transfer with eligibility criteria but without stipulations is recognized as revenue when the transfer is authorized and all eligibility criteria have been met. A transfer with or without eligibility criteria but with stipulations is recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for HNS which is then recorded as deferred federal contribution or deferred revenue.

g. Loans and Advances Receivable

Loans and advances receivable are initially measured at fair value, net of any associated fees and inclusive of transaction costs. Loans and advances are subsequently measured at amortized cost using the effective interest method, less impairments for loans losses (or doubtful accounts). Loans and advances receivable are reported at their recoverable amount, representing the aggregate amount of principal, less allowances for impairment plus accrued interest.

The allowance for impaired loans and advances receivable is determined by assessing the collectability of the loan portfolio, considering each loan's repayment history, security pledged and other circumstances. If there is evidence of impairment, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate. Short term balances are not discounted.

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

h. Tangible Capital Assets

Tangible capital assets represent HNS properties which are carried at cost including the cost of site investigation, land, construction and administration less accumulated amortization and impairment changes.

The tangible capital assets include social housing properties acquired through the Social Housing Agreement from the Housing Development Fund (Note 7) and from acquisitions dating back several decades to predecessor housing organizations within government.

These properties were originally recorded at net book value which included the cost of land and buildings. Net book value was previously depreciated over the years. Management has estimated the portion assigned to land and buildings because historical information related to the original cost of land versus buildings is not available.

New construction and acquisitions are separated between land and building at the time of construction or acquisition.

The rates and methods used to depreciate tangible capital assets over their estimated useful lives are as follows:

Buildings	5%	Declining balance
Machinery & Equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Vehicles	30%	Declining balance
Computer software	25%	Declining balance

When conditions indicate that a tangible capital asset no longer contributes to HNS's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is reduced to reflect the decline in the assets value. Write-downs are not reversed.

Tangible capital assets are retired from the accounts of HNS when sold, destroyed (e.g. due to fire), abandoned or otherwise disposed. Gains and losses, which are recorded in the statement of operations and changes in net debt, are calculated as the difference between the proceeds and the net book value of the assets less transaction costs.

i. Inventory of Land

Inventory of land and properties under development for resale are recognized as part of tangible capital assets until the criteria for available for sale assets is met and will be recognized as financial assets.

j. Forgivable Loans

Forgivable loans are accounted for as government transfers (see Note 2. f). The forgivable loans are non-interest bearing and are advanced with repayment not to be expected unless certain conditions are not met. The forgivable loans are expensed in the year of transfer. If the conditions on a forgivable loan are no longer met, the loan is recorded on the balance sheet and tested for impairment consistent with loans and other advances.

k. Retirement Benefits

The HNS Public Service Award liability earned by employees is actuarially determined using the projected unit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial gains and losses are amortized over the average remaining service life of active members expected to receive benefits under the program (see Note 16). As of April 1, 2015, the accrual of years of service on which benefits payments would be based, were frozen. Payments would be based on earnings at the time of retirement, not April 1, 2015.

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

i. Measurement Uncertainty, Estimates, and Judgements

The preparation of financial statements requires management to make judgements on estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures, and disclosure of contingent assets and liabilities. Many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be material differences between the recognized amounts and another reasonably possible amount. Measurement uncertainty exists for the provision for doubtful recoveries, provision for mortgage guarantees and indemnified loans and other liabilities, the useful life of capital assets, accrued liabilities, and retirement benefits. Actual results could differ from estimates. Judgement is applied in the recognition of financial assets, including CMHC indemnified loans and mortgage guarantees by HNS (See Note 10).

m. Liabilities for Contaminated Sites

Liabilities associated with contaminated sites are recognized as gross expense and expected recoveries when there is a legal obligation to incur retirement costs in relation to a tangible capital asset; the past transaction or event giving rise to the liability has occurred (HNS is directly responsible or accepts responsibility), it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. Liabilities associated with contaminated sites are only recognized if all the above criteria are satisfied.

HNS annually reviews and considers potential tangible capital assets where there is risk of liabilities associated with contaminated sites and have concluded there are no liabilities at this time.

n. Annual Surplus

The annual operating surplus of HNS is recovered to the Department of Municipal Affairs at the discretion of the Province of Nova Scotia. The current year annual and accumulated surplus relates to Federal and Provincial government transfers without stipulations in excess of expenditures of the current period that is intended to be reduced in future periods for amortization expense related to tangible capital assets.

o. Harmonized Sales Tax

Under the Canada-Nova Scotia Reciprocal Taxation Agreement (RTA), HNS and the five Housing Authorities are considered listed entities with the Province of Nova Scotia and are eligible to claim 100% of HST paid or payable via a special provincial entity rebate.

3. Amounts Receivable and Advances

	2020	2019
CMHC	\$ 12,650	\$ 3,554
Harmonized Sales Tax receivable	8,222	4,292
Nova Scotia Municipal Units	9,262	8,914
Other receivables and advances	(232)	3,670
Less allowance for doubtful accounts	(400)	(400)
	<u>\$ 29,502</u>	<u>\$ 20,029</u>

Various Nova Scotia municipal units are billed at year end for their share of net costs related to public housing units in those municipal units, in accordance with agreements between HNS and the municipal units.

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

4. Loans and Advances Receivable

Loans receivable under the Long Term Care Bed Renewal program and the Direct Lending program have aggregate monthly payments of \$3.6 million. These loans are typically secured by mortgages and general security agreements. Interest rates vary from 1.05% to 7.5% with maturity dates from April 1, 2020 to October 1, 2045.

Loans receivable delivered under other programs include Housing Services and Child Care programs having an amortization period of up to 25 years and may have renewal terms. Aggregate monthly payments are \$54 thousand including interest. Interest rates vary from 1.00% to 9.38%, with renewal dates ranging from April 1, 2020 to July 1, 2045. The loans may be secured by registered mortgages on the related properties or general security agreements.

	<u>2020</u>	<u>2019</u>
Long Term Care Bed Renewal program	\$ 431,205	\$ 446,788
Direct Lending	67,341	69,225
Other Programs	15,547	14,875
Less provision for doubtful accounts	(4,864)	(4,617)
	<u>\$ 509,229</u>	<u>\$ 526,271</u>

5. Fund for Future Social Housing Expenditures

	<u>2020</u>	<u>2019</u>
Opening balance, April 1	\$ 26,002	\$ 28,202
CMHC Social Housing transfer per agreement	39,397	42,222
Interest earned by the fund	51	102
Total fund increases	<u>39,448</u>	<u>42,324</u>
Gross public housing and other eligible expenditures	74,608	76,756
Less: Provincial contribution	33,180	23,511
Less: Municipal contribution	9,010	8,721
Expenses withdrawn from Fund for Future Social Housing Expenditures	<u>(32,418)</u>	<u>(44,523)</u>
Increase (decrease) in the fund	<u>7,030</u>	<u>(2,200)</u>
Closing balance, March 31	<u>\$ 33,032</u>	<u>\$ 26,002</u>

Under the terms of the Social Housing Agreement signed in 1997 with CMHC, revised March 21, 2001, HNS will receive a total of \$1.4 billion over the life of the agreement. Annual payments began in 1998 at \$56.9 million and decline to zero by the end of the agreement in 2035. A total of \$1.1 billion has been received to date, and the remaining portion of the committed payments under the agreement is \$244.0 million at March 31, 2020 (2019 - \$283.4 million).

In 2014, \$41.4 million of these funds were committed to a reinvestment program that addresses deferred maintenance on the social housing portfolio. The commitment also includes the creation of new housing options to address the waitlist. As at March 31, 2020, \$6.4 million (2019 - \$6.4 million) remains unspent and committed under the 10 year arrangement ending in fiscal 2024-2025.

The Social Housing Agreement sets out a cash flow schedule over the life of the agreement, but there is no requirement to spend the funds in the year received. The funds are to be spent on qualifying expenditures prior to the end of the agreement in 2035. Funds received in excess of revenue recognized are recorded as deferred revenue (Note 9). Funds are held at the Department of Finance until qualifying expenditures are made, at which time an equal amount of revenue from the DFC is taken into income.

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

6. Accounts Payable and Accrued Liabilities

	<u>2020</u>	<u>2019</u>
Accounts payables and accruals	\$ 23,174	\$ 24,144
Due to Consolidated Fund - Province of Nova Scotia	36,833	66,596
	<u>\$ 60,007</u>	<u>\$ 90,740</u>

7. Housing Development Fund

The Housing Development Fund was established by Order-In-Council to provide working capital for HNS. HNS is able to transfer funds from the Consolidated Fund of the Province of Nova Scotia to a maximum of \$174 million for the purposes of carrying out the provisions of the Housing Act and to a maximum of \$600 million for the purpose of financing the Province of Nova Scotia's Long Term Care Bed Renewal program commitments including direct lending. The amounts outstanding under the Housing Development Fund are outlined in Note 8.

8. Loans and Other Debt

Loans and other debt is comprised of mortgages and notes payable to various lenders. The amortization periods of the notes payable range from 5 to 36 years. The mortgages payable amortization periods range from 20 to 35 years. Notes payable are secured by investments in social housing. Mortgages and notes payable are repayable in monthly or quarterly installments of interest and principal. Interest rates vary from 0.80% to 6.55% with terms ranging from April 1, 2020 to October 1, 2045.

Loans and other debt reported on the consolidated statement of financial position are comprised of the following:

	<u>2020</u>	<u>2019</u>
Housing Development Fund; Notes payable, non-interest bearing, no set terms of repayment	\$ 30,574	\$ 24,886
Direct Lending notes payable	72,039	73,138
Long Term Care Bed Renewal Program notes payable	425,520	443,031
Housing Development Fund (Note 7)	528,133	541,055
Mortgages and notes payable to CMHC	118,722	125,470
Other	279	279
	<u>\$ 647,134</u>	<u>\$ 666,804</u>

Estimated principal repayments for the next five years and thereafter are as follows:

2021	\$ 38,156
2022	36,568
2023	36,904
2024	37,590
2025	38,188
Subsequent to 2025	459,728
	<u>\$ 647,134</u>

Housing Nova Scotia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

9. Deferred Revenue and Other Liabilities

HNS has recorded deferred revenue and other liabilities as follows:

	2020	2019
Deferred revenue		
Social Infrastructure Fund (Note 12)	\$ 7,488	\$ 8,535
Affordable Housing (Note 12)	139	1,154
National Housing Strategy (Note 12)	12,099	-
Deferred Federal Contribution (Note 5)	33,032	26,003
Stabilization Fund	255	255
Total deferred revenue	<u>53,013</u>	<u>35,946</u>
Other liabilities		
Fire and liability	2,800	2,800
Interest rate risk	3,200	3,200
Total other liabilities	<u>6,000</u>	<u>6,000</u>
Total deferred revenue and other liabilities	<u>\$ 59,013</u>	<u>\$ 41,946</u>

HNS has recognized provisions for increased program expenditures resulting from any changes in interest rates.

10. Commitments and Contingencies

Pursuant to the October 1, 1997 Social Housing Agreement, CMHC requires HNS to indemnify CMHC against future losses related to their insured loan portfolio for Nova Scotia. As at March 31, 2020, there were 343 loans administered by HNS, with an outstanding balance of \$13.8 million (2019 - \$19.9 million). Indemnified loans administered by HNS are not recognized as assets of HNS. In the event of default HNS would gain title to the assets and act toward mitigation of any loss. HNS has recorded provisions for \$3.9 million (2019 - \$4.2 million) for any possible losses on the portfolio.

HNS provides mortgage guarantees of interest and principal to lenders financing certain housing projects. As at March 31, 2020, a total of three mortgage guarantees were in effect, and the outstanding balance of mortgages guaranteed was \$5.7 million (2019 - \$6.0 million). Loans guaranteed by HNS are not recognized as assets of HNS.

Certain Housing Authorities are involved with various claims arising out of the ordinary course of operations. Management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

11. Tangible Capital Assets

	Housing Authorities				Social Housing	Total 2020	Total 2019
	Buildings	Machinery & Computers & Equipment	Vehicles	Custom Computer Software			
Opening cost	\$ 10,040	\$ 285	\$ 3,588	\$ 6,152	\$ 480,892	\$ 500,957	\$ 490,525
Additions	-	-	278	-	6,788	7,066	10,424
Retirements	-	-	(451)	-	(21,533)	(21,984)	-
Other adjustments	93	-	-	-	(336)	(243)	8
Closing cost	10,133	285	3,415	6,152	465,811	485,796	500,957
Opening accum. amortization	(5,553)	(85)	(2,950)	(6,092)	(242,148)	(256,828)	(233,869)
Retirements	117	-	451	-	7,687	8,255	-
Amortization	(235)	(40)	(294)	(15)	(20,920)	(21,504)	(22,959)
Closing accum. amortization	(5,671)	(125)	(2,793)	(6,107)	(255,381)	(270,077)	(256,828)
Net carrying value	<u>\$ 4,462</u>	<u>\$ 160</u>	<u>\$ 622</u>	<u>\$ 45</u>	<u>\$ 210,430</u>	<u>\$ 215,719</u>	<u>\$ 244,129</u>

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11. Tangible Capital Assets (continued)

On May 30, 2019 the Province announced that as of June 3, 2019 HNS would report under the Department of Municipal Affairs, renaming the department as the Department of Municipal Affairs and Housing. During the decoupling of HNS from DCS, it was determined that property assets should be held, recorded, and maintained by the public sector entity that controls the economic resources and has access to the future economic benefits associated with the properties. Twenty-two (22) property assets were identified to be retired from HNS to DCS, representing a total one time asset transfer of \$13.8 million. A receivable from the Province in the amount of \$13.8 million was established and is recorded net of balances payable to the Province (Note 6). HNS has a legally enforceable right to set off the recognizable amounts and settle the balance on a net basis. No gain or loss was realized on the asset retirement.

12. Federal Revenue

HNS funding from CMHC for the following programs:

	<u>2020</u>	<u>2019</u>
Social Housing (Note 5)	\$ 32,419	\$ 44,523
National Housing Strategy (NHS)	1,858	-
Social Infrastructure Fund (SIF)	1,047	14,458
Investment in Affordable Housing (IAH)	1,015	8,914
	<u>\$ 36,339</u>	<u>\$ 67,896</u>

HNS and CHMC entered into an Agreement for IAH in 2002, setting out the terms and conditions for funding to be provided and related commitments to improve access to affordable and sustainable housing needs for Nova Scotians. In 2014, the latest IAH supplementary agreement was entered into for additional funding for years 2015 – 2019 for a period of five years. Under the IAH Agreement, the Province of Nova Scotia is required to match funding by CMHC. Aggregate funding of \$51 million has been committed by CMHC through the IAH Agreements as at March 31, 2020 of which all has been committed. Funding is recognized as revenue as the associated expenses under the IAH Agreements are incurred. There are no stipulations over funding recorded as capital items or expenses. Therefore, all revenue is recognized when recognition criteria has been met. As at March 31, 2020, total commitments under this agreement to be disbursed total \$1.3 million.

During fiscal 2016, the Federal Government committed additional funding in the amount of \$53.4 million under SIF to be provided in years 2016 - 2018 as a means of improving the quality and increasing the supply of affordable housing. Of the total funding, \$21.4 million is matched by the Province of Nova Scotia associated with existing programs under the IAH agreements, and \$32.0 million related to expanded programs which are fully funded by CMHC. Aggregate funding under the SIF Agreement of \$53.4 million has been fully committed by CMHC at March 31, 2020. Funding is recognized as revenue as the associated expenses under the IAH Agreements are incurred. As at March 31, 2020, \$7.5 million was recorded as deferred revenue related to funding received from the federal government and not spent (2019 - \$8.5 million). As at March 31, 2020, total commitments under this agreement to be disbursed total \$22.6 million.

In fiscal 2019, the Bilateral Agreement Under the 2017 National Housing Strategy was signed with CMHC on behalf of the Federal Government. Under the terms of this agreement, which ends on March 31, 2028, HNS expects to receive a total of \$197.1 million over nine years for two initiatives : (1) Nova Scotia Priorities Housing and (2) Canada Community Housing. The maximum funding of \$44.1 million by CMHC for these two initiatives is specified in the agreement for fiscal years 2020 to 2022, the remaining \$153.0 million will be allocated to HNS in accordance with the 2023 to 2025 and the 2026 to 2028 action plans.

Federal funding payments are issued upon HNS's submission of commitment-based claims, and as of March 31, 2020 \$14.0 million had been committed. Federal funding received by HNS is held on deposit at the Department of Finance and Treasury Board until qualifying expenditures are made, at which time an equal amount of deferred revenue is taken into income. As at March 31, 2020, \$12.1 million was recorded as deferred revenue related to funding received from the federal government and not spent.

As part of the agreement, the Province of Nova Scotia is required to cost match federal funding for an amount of at least 50% of CMHC funding paid for fiscal years 2020-2022. For fiscal 2020, \$14.9 million has been committed by the Province of Nova Scotia.

As at March 31, 2020, total commitments under this agreement to be disbursed total \$13.5 million.

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13. Provincial and Municipal Revenue

	<u>2020</u>	<u>2019</u>
Provincial Revenue		
Department of Municipal Affairs and Housing		
Social Housing	\$ 33,180	\$ 23,511
Housing Renovation and Affordable Housing	20,735	13,655
Rent Supplement	5,815	2,815
Social Infrastructure Fund	3,010	2,150
Capital Grant	6,324	5,300
Housing Administration Project amortization	1,671	1,671
Housing Strategy	950	1,140
Disability Support Program and Child Youth Family Services amortization	-	986
Down Payment Assistance Program and Information Technology	300	300
Department of Health and Wellness	-	1,100
Department of Community Services	349	-
Municipal Revenue	9,010	8,721
	<u>\$ 81,344</u>	<u>\$ 61,349</u>

14. Operating Costs - Housing Authorities, Rural and Native Program (Note 1 and 2(b))

	<u>2020</u>	<u>2019</u>
Administration	\$ 16,693	\$ 16,577
Amortization (Note 11)	21,504	22,959
Maintenance	39,902	39,604
Modernization and improvements	4,930	1,655
Municipal taxes	10,616	11,482
Other operating	16,268	16,341
Utilities	22,815	23,974
	<u>\$ 132,728</u>	<u>\$ 132,592</u>

15. Financial Instrument Risk Management

HNS, being a government unit, manages its risk in collaboration with the Province of Nova Scotia.

HNS, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at March 31, 2020.

a. Credit Risk

Credit risk is the risk that HNS will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject HNS to credit risk consist primarily of the loans and advances receivable and the indemnified and guaranteed loan portfolios. This risk is managed through mitigations set in place in collaboration with the Province of Nova Scotia. Most borrowers under the direct lending and Long Term Care Bed Renewal program receive funding from the Province of Nova Scotia. 98% of loans and advances receivable are due from borrowers in the long-term health care industry. Credit risk is further managed through collateral pledged by the borrowers and the appropriate provisions for loan losses (Note 4 and 10).

The \$509.2 million of loans and advances receivable has a provision for doubtful accounts of \$4.9 million. There are \$13.8 million in indemnified and guaranteed loans (Note 10), and based on the portfolio there is no risk of loss. The provision for mortgage guarantees and indemnified loans is \$3.9 million.

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b. Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. HNS is primarily exposed to interest rate risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. HNS is subject to interest rate risk on its asset and liability loan portfolios. The loan portfolios are exposed to interest rate risk when asset and liability principal and interest cash flows have different payment repricing or maturity dates. HNS mitigates this risk by lending and borrowing at fixed interest rates for extended terms, maximizing its borrowing from CMHC and the Province of Nova Scotia at lower interest rates.

c. Liquidity Risk

Liquidity risk is the risk that HNS will not be able to meet its obligations as they fall due. The Department of Finance of the Province of Nova Scotia administers the cash position of HNS. HNS's banking operations are linked with the Province of Nova Scotia and with the integrated governance structure of the Provincial Cabinet and Treasury Board Office. The Province monitors HNS's bank balances and provides funding on a daily basis to ensure HNS has funds available to meet its liquidity requirements.

There have been no significant changes from the previous year in the exposure to risk and policies, procedures and methods used to mitigate risk.

16. Retirement Benefit

a. The Housing Authorities have defined contribution pension plans available to eligible employees. The Housing Authorities paid \$1.3 million for employer contributions to the Plan in fiscal 2020 (\$1.4 million in fiscal 2019).

b. HNS has a non-funded long term service award that is accrued annually, but is payable on retirement or death if the employee has at least 5 years of continuous service. The benefit is equal to a certain number of weeks of current salary, with the number of weeks determined based on the years of continuous service up to a maximum of 26 weeks. The benefits ceased to accrue at April 1, 2015 as a result of a Province of Nova Scotia Administrative Directive.

An actuarial valuation of the long term service award liability was performed for fiscal 2020, and HNS has recorded an obligation for long term service awards of \$2.1 million (2019 - \$2.0 million) accruing to Housing Authority employees at retirement.

During the year, HNS provided eligible Housing Authority staff with the option of electing for early payout of earned service awards. Eligible staff included unionized employees under ratified collective agreements. Five collective agreements were ratified during the year, with one union completing the early payout option election, with estimated payouts in the amount of \$718 thousand to be made during fiscal 2021.

The following assumptions have been used in the valuation of HNS accrued long term service awards at March 31, 2020:

	<u>2020</u>	<u>2019</u>
Discount rate	2.13%	2.87%
Ultimate rate of compensation increase	2.00%	2.00%

17. Liability for Contaminated Sites

HNS is required to recognize a liability related to the cost of the remediation of contaminated sites when certain recognition criteria are met.

A risk management approach is taken to support the completeness of the contaminated site inventory by allocating resources based on the probability and impact of contamination on individual sites. For example, Housing Authorities perform various types of maintenance as required by legislation (e.g., NS Building Code Act, Residential Tenancies Act) and consistent with normal practice for management of residential property. Properties where petroleum products are stored would have oil burning equipment and systems inspected and serviced at least annually by qualified trades people. Almost all HNS buildings are occupied and receive regular visits by property staff.

For the fiscal year ended March 31, 2020, HNS has not identified any contaminated sites requiring remediation.

18. Other Matters - Impact of COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown.

Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. HNS has enacted a three month deferral on loan payments, and there is potential for significant financial and operational impacts on the Housing Authorities due to COVID-19.

The impact to HNS and the five Housing Authorities from COVID-19 is unknown, as the situation is dynamic and the ultimate duration and magnitude of the impact is not known at this time.