THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 1, 2005
Report of the
General Manager
and
Treasurer

2004 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The 2004 Financial Statements and explanatory notes for Housing York Inc. along with the Auditor's Report, *(see Attachment 1)* be received by the Board and submitted to The Regional Municipality of York, Service Manager and Shareholder.

2. The 2004 Annual Information Report for the Provincial Reform Program (Municipal Non-Profit) properties *(see Attachment 2)* be received by the Board and submitted to The Regional Municipality of York, Service Manager and Shareholder.

2. PURPOSE

The annual financial statements for Housing York Inc. are presented to the Board of Directors for approval. *(see Attachment 1).*

The financial statements are presented to the Board of Directors in accordance with the requirements of the *Business Corporations Act (Ontario)*. Board approval of audited financial statements is also required as an annual submission to The Regional Municipality of York in its role as Service Manager and for inclusion in the Region's overall financial results.

3. BACKGROUND

The 2004 audit for Housing York Inc. (HYI) was completed in March 2005 by the audit firm of KPMG. The HYI audit falls under the umbrella of the full York Region audit to ensure that inter-company transactions, such as subsidy, are fully examined on both sides.

In 2004 HYI operated housing properties under three separate housing programs; Provincial Reform Program, Public Housing Program and Region Housing Program (Armitage Gardens). The results are presented in a consolidated format and include 2003 results in order to facilitate a year-over-year comparison. The information provided directly to the Service Manager will include additional schedules at the program level.

An Annual Information Return has also been prepared for the Provincial Reform properties as required for the Service Manager *(see Attachment 2).* The audit review of this report is based on specified auditing procedures agreed to between York Region and KPMG *(see Attachment 2).*

The program delivery and funding formulas for the Provincial Reform and Public Housing programs have remained the same as those that were in place prior to the transfer of administrative responsibilities to York Region in November 2001.

3.1 Provincial Reform Program

HYI operated 823 units of affordable housing under the Provincial Reform program. This portfolio maintains a capital reserve replacement fund and retained earnings. Under program rules certain surplus operating funds may be retained at year-end and contributed to retained earnings. There are nine buildings in this program all of which are financed by mortgages and identified on the balance sheet of HYI.

3.2 Public Housing Program

HYI operated 872 units of affordable housing under the Public Housing program. A capital reserve replacement fund and retained earnings are not currently maintained in this portfolio. There are 17 buildings in this program which are financed by provincial debenture through York Region and no balance sheet values are identified at the HYI level as a result.

3.3 Region Housing Program

Armitage Gardens became operational in 2004 when 58 new units were opened. There are no prior year financial statements for comparative purposes. This property is financially self-sustaining and therefore not eligible for Regional subsidy. Any surplus operating funds are directed to a capital reserve for future investment in this building.

4. ANALYSIS AND OPTIONS

4.1 Financial Summary

The financial statements are comprised of a Balance Sheet, Statement of Revenue and Expenditures and Retained Earnings, Statement of Cash Flows and supplementary notes and tables. All results are consolidated at the corporate level of HYI.

It should be noted that while York Region provides distinct formula-driven funding for both major housing programs, the Province legislates the program administration requirements for both the Provincial Reform and Public Housing portfolios through the *Social Housing Reform Act, 2000*.

4.2 Financial Analysis

Following mandatory contributions to the capital reserve fund, HYI improved its financial position in 2004 by generating $151,520 in surplus funds to increase Retained Earnings to $3,068,774. At December 31, 2004 the Capital Replacement Reserve amounted to $5,785,922, reflecting a small but expected decrease from the prior year end.

4.2.1 Balance Sheet

As at December 31, 2004, HYI has total assets of $96,399,940 of which 88% was in property holdings, net of accumulated depreciation.

Accounts receivable for rent is higher than 2003 year end by $65,581 or 83% as a result of strengthening rent collection activities in the area of retroactive adjustments and miscellaneous chargebacks. The other significant change in accounts receivable during 2004 is captured in the Other category where approximately $300,000 is recorded owing by the Town of Newmarket for the Sandford Street land transfer.

Restricted cash items include tenant rental deposits and the capital reserve fund. For informational purposes, $5,762,941 or 99% of the reserve fund is invested in the Social Housing Services Corporation (SHSC) mandatory investment program. During 2004 the investment realized a return of $151,659 or 2.7% which is comparable to returns experienced by York Region on similar corporate investments. However, since this was the first year of participation in the mandatory SHSC fund, further comparisons and broader investment strategies will be reviewed and tabled later in 2005 with the introduction of a HYI Investment Policy.

As at December 31, 2004, HYI has liabilities of $87,545,243 of which 84% or $73,640,101 is attributable to mortgages on the Provincial Reform properties.

The equity which includes retained earnings of $3,068,774 and the capital reserve fund of $5,785,922 is solely attributable to the Provincial Reform portfolio. As at December 31, 2004 total equity was $8,854,697, an increase of $99,442 over the prior year. The increase is due to the surplus of $151,520 identified earlier partially offset by a decrease of $52,078 in the Provincial Reform Capital Replacement Reserve fund.

4.2.2 Statement of Revenue and Expenditures and Retained Earnings

The Statement of Revenue and Expenditures and Retained Earnings incorporates the consolidated operating results of the three housing programs as well as general and administrative revenues and expenditures.

Total revenues of $16,396,444 were essentially on budget. There are two revenue lines that are typically not budgeted but actual results are calculated as part of the year-end closing adjustments. The prior year subsidy adjustment of ($34,165) is calculated by the Service Manager and relates to the Provincial Reform program settlement for 2002 partially offset by accounting restatements in 2004. The line relating to Other and Interest revenue is based on annual formula driven calculations and the amount of $185,686 represents eligible entitlements earned by HYI at the end of the year. Overall, HYI revenue performance was on target with insignificant fluctuations within the revenue categories.

Unbudgeted expenses in Building Materials and Services and Contracted Services for Regional staff were offset with savings in utilities and Public Housing Capital. Cost pressures for materials and labour continue to be challenging areas to monitor in 2005. Total actual expenses were $147,663 or 1% less than budgeted expenses.

The excess of revenue over expenditures was $588,489 of which $436,969 was transferred to the capital reserve replacement fund as mandatory contribution under program rules for the Provincial Reform properties. The remaining portion of surplus funds is $151,520 which HYI is directed to Retained Earnings.

4.2.3 Statement of Cash Flows

This statement monitors the movement of funds in and out of HYI throughout the year. The amount of $4,888,038 at the end of 2004 reconciles to cash and cash equivalents identified on the balance sheet. There is no unusual cash flow activity to report.

4.2.4 Major Repairs/Replacements Expenditures (Capital)

As noted earlier, major repairs and replacement expenditures from the Provincial Reform portfolio are funded from the capital reserve. The value of the reserve lower than 2003 by $52,078 as a result of expenditures exceeding the mandatory contribution. This was an expected outcome and the 2005 Business Plan and Budget forecasts this trend will continue until at least 2007.

Major repairs and replacement expenditures in the Public Housing portfolio are funded through the operating subsidy payment process. In 2004 major repairs and replacement expenditures were $933,823 which is 87% of the 2004 budget of $1,072,784.

5. FINANCIAL IMPLICATIONS

There are no financial implications for this report; however, the following are notable indicators of net financial position as at December 31, 2004:

- Current Value Assessment of all properties in 2004 is approximately $135M based on 2004 Municipal Property Assessment information.
- Provincial Reform mortgage value of properties is $84,786,671.
- Provincial Reform retained earnings is $3,068,774.
- Provincial Reform Capital Replacement Reserve is $5,785,922.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal impacts associated with this report.

7. CONCLUSION

Housing York Inc. has continued to operate its programs in accordance with program requirements and funding formula expectations. Major repairs and replacements have been made within the limits of the budget and capital improvement plan.

The Senior Management Group has reviewed this report.

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Reviewed by:

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Recommended by:

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Approved for Submission:

Michael R. Garrett
President

May 18, 2005

Attachments – 2
KC/dm

Version 4-2003-5-30