

THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 10, 2009
Report of the
General Manager
and
Treasurer

2008 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2008 Financial Statements and explanatory notes for Housing York Inc. (*see Attachment 1*) be approved by the Board and submitted to The Regional Municipality of York, in its role as Service Manager and Shareholder of the Corporation.
2. The attached 2008 Annual Information Return for the Housing York Inc. Provincial Reform Program (*see Attachment 2*) be approved by the Board and submitted to The Regional Municipality of York, in its role as Service Manager and Shareholder of the Corporation.

2. PURPOSE

The annual financial statements for Housing York Inc. (HYI), along with the Annual Information Return, are presented to the Board of Directors for approval.

The financial statements have been prepared to comply with Section 113(2) of the *Social Housing Reform Act, 2000*. Board approval of audited financial statements is required as an annual submission to the Region in its role as Service Manager and for inclusion in York Region's overall financial results.

3. BACKGROUND

Financial disclosure to the Board is a compliance requirement

The Board approves HYI financial statements in a consolidated format which include 2007 results. This facilitates year-over-year financial comparisons.

In addition to consolidated financial statements, the Board approves an Annual Information Return which is prepared for the Provincial Reform Program properties as required for the Service Manager. The audit review of the Annual Information Return is based on specific auditing procedures agreed to between York Region and the external auditors.

Housing York Inc. audit is linked to the regional audit to fully evaluate related-party transactions

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. The 2008 audit for HYI was completed in March 2009 by the audit firm of KPMG.

The audit strategy also considers the financial information required by the Service Manager following Board approval of the financial statements and Annual Information Return. Various additional supplemental schedules are reviewed by the auditor to validate subsidy settlement for the various housing programs managed by HYI.

Portfolio snap shot reveals three distinct funding formulas

The funding formula for the Provincial Reform Program was changed by the Ministry of Municipal Affairs and Housing in 2006 and is based on four components as shown in Table 1. Public Housing Program funding is the same as it was prior to the transfer of administrative responsibilities to York Region in November 2001. The Regional Housing Program, which began in 2003, is not eligible for any subsidy and funds its own capital reserve from surplus operating funds.

Table 1
Summary of Housing York Inc.'s Programs and Subsidy Eligibility

Program	No. of Buildings	No. of Units	Unit Mix		Subsidy Eligibility
Provincial Reform	11	937	RGI	72%	Mortgage, Taxes, RGI Subsidy and Mandatory Contribution to Capital Reserve
			Market	28%	
Public Housing	17	872	RGI	100%	Operating, which includes Capital
Regional Housing	3	168	Market	100%*	None
Total	31	1,977	RGI	80%	
			Market	20%	

* For reporting purposes the units in the Regional Housing Program are classified as market units in HYI. However, 94 households (80% of the total) receive financial assistance from the Region's Rent Supplement Program.

In addition, HYI has limited reporting responsibility for the Blue Door emergency shelter site located in the Town of East Gwillimbury. The financial results pertaining to the mortgage, capital reserve and subsidy are a flow-through for HYI which are included in the Corporation's financial statements. However, the preparation of any other financial reports is the responsibility of the agency providing service at the site.

4. ANALYSIS AND OPTIONS

How to interpret the contents of the financial statement package

The financial statements are comprised of a:

- Balance Sheet
- Statement of Revenue and Expenditures and Retained Earnings
- Statement of Cash Flows
- Supplementary notes and tables

All results are consolidated at the corporate level of HYI as is customary for financial statement presentation.

Discretionary reserves previously approved by the Board are reflected on the financial statements to restrict a portion of accumulated Retained Earnings for specified uses. These reserves relate to energy management, emergency power, and insurance deductibles.

Surplus reported after Board approved internal allocations

HYI is reporting another financially successful year. A surplus of \$354,564 is reported on the Statement of Revenue and Expenditures and Retained Earnings following the mandatory contribution to the capital reserve. Of this amount, several allocations took place to establish a net operating surplus of \$19,216, which increased Retained Earnings to \$1,818,118. A summary is provided in Table 8 of this report.

It should be noted that all of the energy management costs for year one of the multi-year program were funded from operating surplus rather than borrowing. Self-funding the first year of costs is seen as an advantage for the overall program as it defers a draw on the borrowing agreement with the Region until 2009.

Balance Sheet remains healthy

As at December 31, 2008, HYI has total assets of \$113,390,656 of which 88% was in property holdings, net of accumulated depreciation. Overall, the change in assets is \$6,168,982, or 5.8% higher than 2007. This increase is due to the addition of Tom Taylor Place, located in the Town of Newmarket, which is partially offset by amortization on the Provincial Reform buildings.

Asset value is higher; mix essentially unchanged

Table 2 summarizes the three main asset categories.

Table 2
Asset Summary

Balance Sheet – Assets Categories	2008	2007
Current Assets	\$ 2,491,229	\$ 3,210,365
Restricted Cash and Investments	10,822,437	10,411,996
Property Holdings	100,076,990	93,599,313
Total Assets	\$113,390,656	\$107,221,674

HYI reallocated some funds from the bank to its investment holdings in 2008 which explains the decrease in current assets offset by an increase restricted cash and investments.

Restricted cash and investment items include tenant rental deposits, the capital reserve, the internal reserves, and investments related to surplus operating funds. Further information regarding HYI's reserves is provided in Table 5 of this report.

Liabilities higher than last year due to financing associated with Tom Taylor Place

On December 31, 2008, HYI has total liabilities of \$102,110,399 comprised of current liabilities of \$8,972,736 or 8.8% and building financing of \$93,137,663 or 91.2%.

Table 3 summarizes the liability categories.

Table 3
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2008	2007
Accounts Payable and Accrued Liabilities	\$ 2,050,522	\$ 2,239,689
Deferred Revenue	530,969	428,356
Amounts Due to Regional Municipality of York	3,321,797	2,890,584
Current Portion of Mortgage Payable	3,069,448	10,756,619
Current Liabilities	8,792,736	16,315,248
Loan Agreements	5,834,000	-
Mortgages Payable	87,303,663	82,527,694
Total Liabilities	\$102,110,399	\$98,842,942

There are no unusual outcomes with Accounts Payable compared to last year. The deferred revenue amount of \$530,969 consists of last month's rent deposits, as well as antenna revenue and subsidy received for future periods. These amounts are recognized as revenue in the appropriate future period or returned to tenants, depending on the applicable circumstances.

The amount owing to York Region in 2008 is \$3,321,797 broken down as follows:

Payroll and Regional Allocations for 2008	\$1,070,971
Subsidy Settlements	<u>2,250,826</u>
Payable to York Region December 31, 2008	<u>\$3,321,797</u>

The current or short term portion of mortgage payable is the amount due within one year. The amount of \$3,069,448 is significantly lower than 2007. Last year's amount included the full value of two mortgages where renewals were pending and therefore considered current. Upon completion of these renewals, the balance payable beyond one year was reclassified back to long term mortgage payable in 2008.

Loan agreements totalling \$5,834,000 are appearing on the balance sheet for the first time for Tom Taylor Place. The new building is financed through the Affordable Housing Program with contributions from three levels of government. The Board approved the long term financing structure in January 2009 and the ensuing loan agreements between York Region and HYI are currently being finalized.

Region's contribution for Tom Taylor Place boosts HYI equity

Overall, HYI's equity is \$2,901,525 higher than 2007 mostly due to the Region's contribution to Tom Taylor Place, partially offset by planned spending against the reserves.

Table 4
Summary of Equity

Balance Sheet Equity	2008	2007
Reserve Fund for Capital Equipment Replacement	\$5,109,513	\$ 5,443,552
Reserve Fund for Energy Management Project	122,210	165,534
Reserve Fund for Emergency Power Project	487,829	789,358
Reserve Fund for Insurance Deductibles	187,708	181,386
Shareholder Contribution	3,554,879	-
Retained Earnings	1,818,118	1,798,902
Total Equity	\$11,280,257	\$ 8,378,732

Table 5 summarizes 2008 activity in and out of the reserves.

Table 5
Summary of Reserve Activity

Activity	Capital Reserve	Energy Management Reserve	Emergency Power Reserve	Insurance Reserve
Balance January 1, 2008	\$5,443,552	\$165,534	\$789,358	\$181,386
Mandatory Contribution	671,465	-	-	-
Transfers-In	324,244	-	-	50,000
Expenditures in 2008	(1,329,748)	(43,324)	(301,529)	(43,678)
Balance - December 31, 2008	\$5,109,513	\$122,210	\$487,829	\$187,708

The *Social Housing Reform Act, 2000* requires housing providers to invest their capital reserve in a pooled investment fund. HYI has invested \$4,537,174 or 88.8% of its capital reserve in the mandatory fund. The remaining portion of the reserve is invested in cash or provincial bond.

The \$43,324 expended out of the energy management pilot reserve reflects a partial repayment to Retained Earnings for the pilot retrofits at two buildings in 2007. The balance remaining in this reserve will be repaid over the next three years to conclude HYI's commitment on the energy management pilot project.

Statement of Revenue and Expenditures and Retained Earnings reflects higher operating revenue and lower costs compared to budget

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 overheads. The 2008 approved budget is provided for reference. The details of this financial statement are discussed in following sections.

Rent and other operating revenue exceed expectations which in turn lower subsidy requirements

The amount of subsidy HYI was eligible to receive at the end of the year was less than budgeted because tenant rent and sundry income were higher than planned. This reduces the amount of subsidy the Corporation can receive under the funding formula. The subsidy budget estimate was \$8,404,071 versus the actual outcome of \$7,629,866.

Table 6 provides a revenue summary for 2008.

Table 6
Summary of 2008 Revenues

Revenue Summary	2008 Budget	2008 Actual	\$ Var.	% Var.
Government Subsidies	\$ 8,404,071	\$ 7,629,866	(\$774,205)	(9.2)%
Rental Income	12,668,510	12,739,675	71,165	0.6%
Other	187,928	69,422	(118,506)	(63.1)%
Sundry	482,395	687,003	204,608	42.4%
Recognition of Utility Savings	-	235,142	235,142	-
Total Revenues	\$21,742,904	\$21,361,108	(\$381,796)	(1.8)%

The subsidy budget is estimated and approved during the annual budget process. The Region flows the estimated funds to HYI throughout the year. At year-end, the actual subsidy entitlement is recalculated based on results. The year-end calculation, known as subsidy settlement, determines whether HYI is allowed more or less funding than what has been provided throughout the year. Due to strong revenue performance, HYI qualifies for less funding than estimated. The overpayment of subsidy is ultimately captured as a liability on the balance sheet owing back to York Region.

Rent revenue was \$71,165 or .6% higher than budget due to the actual unit mix related to market versus rent-geared-to-income (RGI) tenancies. Sundry income, comprised of laundry, parking, antenna, maintenance and investment income, exceeded budget estimates by more than \$200,000.

The recognition of utility savings in the amount of \$235,142 is noteworthy. Using detailed energy analysis for the buildings where retrofits have been completed, HYI is able to quantify specific energy savings as a revenue source. Once recognized as revenue, the savings were subsequently allocated to repay \$43,324 to Retained Earnings for the pilot project and \$191,181 for the first year of the energy management strategy.

Operating expenses reflect continued pressure on building costs, offset by under spending in utility expenses

Overall total operating expenses were \$402,369 or 1.9% lower than budget as shown in Table 7.

Table 7
Summary of 2008 Expenses

Expenditure Summary	2008 Budget	2008 Actual	\$ Var. F/(U)	% Var. F/(U)
Administration and Maintenance	\$ 5,942,919	\$ 6,403,185	(\$460,266)	(7.7)%
Insurance	181,400	213,387	(31,987)	(17.6)%
Bad Debts	77,868	72,769	5,099	6.6%
Utilities	2,676,748	2,248,914	427,834	15.9%
Mortgage/Lease Payments	8,434,812	8,327,669	107,143	1.3%
Property Taxes	2,059,360	1,979,161	80,199	3.9%
Shelter Costs	-	74,521	(74,521)	-
Public Housing Capital	1,364,341	1,015,473	348,868	25.6%
Total Expenditures	\$20,737,448	\$20,335,079	\$402,369	1.9%

The administration and maintenance category includes all building maintenance expenses, all payroll costs, and administrative overheads. The budget pressures experienced in this category are \$460,266 or 7.7%. They are largely attributable to maintenance costs. Overspending in this budget category has been a trend since 2006 and HYI continues to examine efficiency opportunities. Savings in other budget categories, where allowed under the funding formula, can be used to offset unfavourable variances.

Insurance costs exceeded budget by \$31,987 or 17.6% as a result of upgrading the policy coverage to reflect 2007 appraised building values. Bad debts was under budget by \$5,099 due to recoveries on aged accounts previously written off.

The savings of \$107,143 for mortgage and lease payments and \$80,199 for property taxes do not carry any financial impact on HYI's year-end results. These costs are funded for actual dollars spent and so any savings realized in these categories becomes part of the refundable portion of subsidy that is returned to the Service Manager.

Public Housing capital costs were under budget by \$348,868 as a result of realized savings on a variety of jobs and deferral of some work until 2009. Unused capital funds are returned to the Service Manager in the subsidy settlement.

Operating surplus is allocated to reserves and Retained Earnings

Table 8 explains how the operating surplus is derived and allocated.

Table 8
Distribution of Surplus Operating Funds

Total Revenue	\$ 21,361,108
Total Expenses	(20,335,079)
Excess Revenue over Expenditures	1,026,029
Mandatory Contribution to Capital Reserve Fund	(671,465)
Excess Revenue over Expenditures Available for Internal Use	\$ 354,564
Allocations to Internally Restricted Reserve Funds	
Energy Management Strategy – year one	\$ 191,818
Insurance Reserve (annual contribution)	50,000
Tenant Survey and Growth Projects approved by Board	93,530
Retained Earnings	19,216
Total Distribution of 2008 Operating Surplus	\$ 354,564

Statement of Cash Flows validates reported results

This statement monitors the movement of funds in and out of HYI throughout the year. The amount of \$1,769,273 at the end of 2008 reconciles to the cash account identified on the Balance Sheet and is viewed to be sufficient cash flow to maintain normal operations without collapsing investments prior to maturity. There are no unusual cash flow activities reported during the period.

Major repairs/replacement expenditures (Capital)

As noted in Table 4, the value of the capital reserve replacement fund is lower than 2007 because planned expenditures were greater than contributions. This is fully consistent with the 10-year capital plan as the buildings age.

Funding sources for all major repairs and replacement expenditures for all programs are summarized in Table 9.

Table 9
Funding for Major Repairs and Replacement (Capital)

<i>Funded from the Capital Reserve Replacement Fund:</i>	
Provincial Reform and Regional Housing Program	\$1,329,748
<i>Funded from the Operating Budget:</i>	
Public Housing Program	1,015,473
2008 Major Repairs and Replacement Expenditures	\$2,345,221

5. FINANCIAL IMPLICATIONS

Housing York Inc. ended the year in a positive position and the following are notable indicators of net financial positions as at December 31, 2008:

- Income producing properties (Provincial Reform) is \$93,284,313.
- Other property holdings (Tom Taylor Place) is \$9,703,879.
- Provincial Reform retained earnings is \$1,818,118.
- Provincial Reform and Regional Housing Program Capital Replacement Reserve is \$5,109,513.
- The most recent Current Value Assessment of all properties is dated 2005 and is estimated at \$175,125,000 based on Municipal Property Assessment information.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. provides affordable housing throughout the local municipalities in York Region.

7. CONCLUSION

Housing York Inc. has continued to operate its programs in accordance with program requirements and funding formula expectations. Budget pressures are noted in building maintenance costs but were managed within the budget envelope.

Costs attributable to the first year of the energy management strategy were funded from in-year surplus operating funds. This deferred the necessity of borrowing for a year while still making a modest contribution to retained earnings.

For more information on this report, please contact Sylvia Patterson, Assistant General Manager, Housing York Inc. at Ext. 2091.

The Senior Management Group has reviewed this report.

Reviewed by:

Sylvia Patterson
Assistant General Manager

Recommended by:

Joann Simmons
Commissioner of Community and Health
Services

Lloyd Russell
Treasurer

May 28, 2009

Attachments - 2

KC/jf

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