THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 16, 2011
Report of the
General Manager
and
Treasurer

2010 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2010 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 2010 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. (Housing York) 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 the 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 receives Housing York financial statements in a consolidated format which include year-over-year financial comparisons at the corporate level.

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 of the Annual Information Return is based on specific auditing procedures agreed to between York Region and the external auditors.

Housing York audit is linked to the Regional audit to fully evaluate related–party transactions

The firm of KPMG, LLP is engaged by the Region to audit the books of Housing York. This ensures that inter-company transactions, such as subsidy and payroll costs for Regional staff, are fully examined on both sides.

The 2010 audit for Housing York was completed during March and April 2011. The KPMG auditor in charge of Housing York's audit is invited to attend the June meeting of the Board of Directors.

Portfolio snap shot reveals three distinct funding formulas

The following table summarizes Housing York's eligibility for subsidy funding.

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

Program	No. of Buildings	No. of Units	Unit Mix	Subsidy Eligibility
Provincial Reform	11	937	RGI 72% Market 28%	Mortgage, Taxes, RGI Subsidy and Mandatory Contribution to Capital Reserve
Public Housing	17	872	RGI 100%	Operating, which includes Capital
Regional Housing	3	168	Market 100%	No subsidy eligibility however, approximately 80% of the households receive financial assistance from the Region's rent supplement program.
Total	**31**	**1,977**	RGI 80% Market 20%	

In addition, Housing York 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 Housing York 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 Housing York 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 claims.

Surplus of $94,984 reported after Board approved internal allocations

Housing York is reporting another financially successful year despite a still difficult economy in 2010. A surplus of $182,643 is reported on the Statement of Revenue and Expenditures and Retained Earnings following the mandatory contribution to the capital reserve. Of this amount, several approved allocations took place to establish a net operating surplus of $94,984.

Balance Sheet remains healthy

As at December 31, 2010, Housing York has total assets of $111,019,529 of which 87% was in property holdings, net of accumulated depreciation.

Overall, the change in assets is $2,039,441, or 1.8% lower than 2009. The annual amortization of buildings was essentially the main contributor to the reduction in the Property Holdings category.

Table 2 summarizes the three main asset categories.

Table 2
Asset Summary

Balance Sheet – Assets Categories	2010	2009
Current Assets	$ 5,422,755	$ 4,725,153
Restricted Cash and Investments	9,202,194	8,562,243
Property Holdings	96,259,580	99,771,574
Energy Management Strategy	135,000	-
Total Assets	**$111,019,529**	**$113,058,970**

Housing York current assets are higher than 2009 due to the timing of funding flows associated with the economic stimulus program and recovery of harmonized sales tax. At year-end, Housing York established a receivable owing from the Region for various major repair jobs that had been completed for which funds were pending. This timing lag self-corrects in 2011 once funds are released and the accounting recognition takes place.

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

Modest change in liability obligations

On December 31, 2010, Housing York has total liabilities of $96,580,370 comprised of current liabilities of $10,281,788 or 11% and building financing of $86,298,582 or 89%.

Table 3 summarizes the liability categories.

Table 3
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2010	2009
Accounts Payable and Accrued Liabilities	$ 2,270,680	$ 1,939,879
Deferred Revenue	625,316	462,090
Amounts Due to Regional Municipality of York	3,810,807	3,664,249
Current Portion of Mortgage Payable	3,574,985	15,603,869
Current Liabilities	**10,281,788**	**21,670,087**
Loan Agreements	5,834,000	5,834,000
Mortgages Payable	80,464,582	71,699,794
Total Liabilities	**$96,580,370**	**$99,203,881**

There are no noteworthy outcomes with Accounts Payable compared to last year. The deferred revenue amount of $625,316 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 2010 is $3,810,807 broken down as follows:

Payroll, Regional Allocations, Energy Management Loan	$2,134,473
Subsidy Settlements (2009 and 2010)	1,676,334
Payable to York Region December 31, 2010	**$3,810,807**

The loan agreements and mortgages payable shown on the balance sheet represent various financing obligations on buildings within the Provincial Reform and Regional Housing programs. The current or short-term portion of mortgage payable is the amount due within one year.

Due to a mortgage renewal completed for Heritage East in 2010, the mortgage at this site is reclassified as a long-term liability under the category of Mortgages Payable. Current (short-term) liability decreases by an equal amount as a result of this reclassification.

Technology and environmental projects increases Housing York’s equity

Overall, Housing York’s equity is $584,070 higher than 2009 mostly due to the reserve funds for completion of the technology project started in 2010, and an environmental project at Fairy Lake pond in Newmarket. The higher equity is partially offset by planned spending against the reserves.

Table 4
Summary of Equity

Balance Sheet Equity	2010	2009
Reserve Fund for Capital Equipment Replacement	$4,557,967	$4,706,347
Reserve Fund for Energy Management Pilot Project	35,562	78,886
Reserve Fund for Energy Management Strategy	229,077	129,375
Reserve Fund for Emergency Power Project	539,541	539,541
Reserve Fund for Insurance Deductibles	162,630	201,257
Reserve Fund for Voyager Upgrade Project	210,105	-
Reserve Fund for Fairy Lake Pond	574,848	-
Shareholder Contribution	6,557,461	6,557,461
Retained Earnings	1,571,968	1,642,222
Total Equity	**$14,439,159**	**$13,855,089**

Table 5 summarizes 2010 activity in and out of the reserves.

Table 5
Summary of Reserve Activity

Activity	Capital Reserve	Energy Management Pilot Reserve	Energy Management Strategy	Emergency Power Reserve	Insurance Reserve
Balance January 1, 2010	**$4,706,347**	**$78,886**	**$129,375**	**$539,541**	**$201,257**
Transfers-In from operating	744,634	-	-	-	25,000
Transfers-In other sources	174,058	-	304,653	-	(20,000)
Expenditures in 2010	(1,067,072)	(43,324)	(204,951)	-	(43,627)
Balance - December 31, 2010	**$4,557,967**	**$35,562**	**$229,077**	**$539,541**	**$162,630**

The *Social Housing Reform Act, 2000* requires housing providers to invest their capital reserve in a pooled investment fund. Housing York has invested $4,330,536 or 94.8% of its capital reserve in the mandatory fund. The remaining portion of the reserve is invested in a bank account.

The $43,324 expended out of the energy management pilot reserve reflects the 2010 repayment to Retained Earnings for the pilot retrofits completed in 2007. The balance remaining will be fully repaid to Retained Earnings in one year, concluding Housing York's commitment to repay $500,000 start-up funds on the energy management pilot project.

The energy management strategy reserve reflects activity for Housing York's five-year retrofit program. This program was originally estimated at $3,500,000 based on interest free borrowing from York Region's innovation reserve. However, Housing York has been able to utilize grants from the economic stimulus program as an alternative to borrowing for some of the planned retrofits. After three years, Housing York has borrowed only $150,000 from York Region, having successfully obtained alternative funding for most of the expenditures incurred so far.

Statement of Revenue and Expenditures and Retained Earnings reflects consistent operational performance despite cost pressures

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 2010 approved budget is provided for reference. The details of this financial statement are discussed in following sections.

Rent revenue exceed expectations which in turn lowers subsidy requirements

Rent revenue was $119,109 or .9% higher than budget due to the actual unit mix related to market versus rent-geared-to-income tenancies. This is a positive outcome in light of economic uncertainty experienced for most of the year, particularly around rent-geared-to-income revenue. Maintaining solid revenue performance is essential to working within the funding formula framework. Housing York continues to monitor rent and investment income.

Table 6 provides a revenue summary for 2010.

Table 6
Summary of 2010 Revenues

Revenue Summary	2010 Budget	2010 Actual	$ Var.	% Var.
Rental Income	$13,178,718	$13,297,827	$119,109	0.9%
Non Rent Revenue	455,802	455,782	(20)	0.0%
Government Subsidies	9,435,183	8,836,939	(598,244)	(6.3)%
Provincial Reform Surplus	96,839	94,984	(1,855)	(1.9)%
Total Revenues	**$23,166,542**	**$22,685,532**	**$(481,010)**	**(2.1)%**

The subsidy budget is estimated and approved during the annual budget process. York Region releases the estimated funds to Housing York throughout the year. At year-end, the actual subsidy entitlement is recalculated based on results. The year-end calculation, known as subsidy reconciliation, determines whether Housing York is allowed more or less funding than what has been provided throughout the year. Due to solid revenue performance and lower spending in utilities, Housing York 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.

Operating expenses reflect lower pressure on building costs and under spending in utility expenses

Overall total operating expenses were $546,015 or 2.4% lower than budget as shown in Table 7.

Table 7
Summary of 2010 Expenses

Expenditure Summary	2010 Budget	2010 Actual	$ Var. F/(U)	% Var. F/(U)
Administration and Maintenance	$ 6,806,768	$ 6,760,940	$ 45,828	0.7%
Insurance	268,250	75,348	(7,098)	(2.6)%
Bad Debts	80,251	42,100	38,151	47.5%
Utilities	2,714,287	2,391,623	322,664	11.9%
Mortgage/Lease Payments	8,498,343	8,394,602	103,741	1.2%
Property Taxes	2,141,370	2,040,469	100,901	4.7%
Shelter Costs	-	109,698	(109,698)	-
Public Housing Capital	1,795,000	1,743,474	51,526	2.9%
Total Expenditures	**$22,304,269**	**$21,758,254**	**$546,015**	**2.4%**

The administration and maintenance category includes building maintenance expenses, Regional payroll costs, and administrative overheads. The budget pressures in this category are lower than what Housing York experienced in the last two years. The positive variance of $45,828 or 0.75% is largely attributable to efficiencies achieved in controlling maintenance costs.

Insurance costs exceeded budget by $7,098 or 2.6% as a result of sector-wide increases in insurance premiums. Utility costs were under budget due to favourable winter weather conditions and energy conservation efforts.

Bad debts were under budget by $38,151 or 47.5% due to recoveries on aged accounts previously written off, as well as enhanced arrears collection efforts.

The minor variations on mortgage and property taxes do not carry any financial impact on Housing York's year-end results. These costs are funded for actual dollars spent and variances in these categories become part of the subsidy reconciliation. The refundable portion of the subsidy is returned to the Service Manager.

Public Housing capital costs were under budget by $51,526 or 2.9% which is an indication that all jobs were completed as planned. Housing York was able to divert several of its budgeted jobs to the Social Housing Repair and Renovation Program to make use of provincial and federal grants funding. Unused Public Housing capital funds are returned to York Region in the subsidy reconciliation.

Operating surplus is allocated to reserves and Retained Earnings

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

Table 8
Distribution of 2010 Surplus Operating Funds

Total Revenue	$ 22,685,532
Total Expenses	(21,758,255)
Excess Revenue over Expenditures	927,277
Contribution to Capital Reserve Fund	(744,634)
Excess Revenue over Expenditures Available for Internal Use	**$ 182,643**
Non-Program/Non-cash Transactions – Building Depreciation	(247,897)
Retained Earnings, January 1, 2010	1,642,222
Insurance Reserve Net Activity	(5,000)
Retained Earnings, December 31, 2010	**$1,571,968**

In order to comply with *Generally Accepted Accounting Principles,* Housing York is required to report depreciation expense on buildings that are not covered by the *Social Housing Reform Act, 2000.* Building depreciation, in the amount of $247,897 is reported on Tom Taylor Place and Leeder Place.

Depreciation expense is a non-program, non-cash transaction. It has the perception of reducing Retained Earnings on the corporation's consolidated financial statements. However, Housing York maintains various schedules for the Service Manager to reconcile Retained Earnings under *Generally Accepted Accounting Principles* and *Social Housing Reform Act, 2000*. Detailed information on Housing York's amortization policies for *Social Housing Reform Act, 2000* buildings are explained in the notes that accompany the financial statements.

Statement of Cash Flows validates reported results

This statement monitors the movement of funds in and out of Housing York throughout the year. The amount of $1,925,014 at the end of 2010 reconciles to the cash account identified on the Balance Sheet and is viewed to be sufficient cash flow to maintain normal operations. There are no unusual cash flow activities reported during the period.

Major repairs/replacement expenditures (Capital) at a record high due to economic stimulus plan funding agreements

With the infusion of grants from the second year of the Social Housing Repair and Renovation Program, Housing York enjoyed a record year of capital investments in its buildings. Over $5.7 million dollars was approved, with 51% being funded via economic stimulus plan, allowing for an exceptional number of capital projects to be completed.

As noted in Table 4, the value of the capital reserve replacement fund is lower than 2009 because planned expenditures were greater than contributions. This result was predicted by the 10-year capital plan as the buildings age. Using economic stimulus grant funds will extend the longevity of Housing York's capital reserves by about two years.

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)

Funded from the Capital Reserve Replacement Fund:	
Provincial Reform and Regional Housing Program	$1,067,072
Funded from the Operating Budget:	
Public Housing Program	1,743,474
Funded from Additional Agreements:	
Social Housing Repair and Retrofit Program	2,946,288
2010 Major Repairs and Replacement Expenditures	**$5,756,834**

5. FINANCIAL IMPLICATIONS

Housing York ended the year in a positive position and the following are notable indicators of net financial positions as at December 31, 2010:

- Income producing properties (Provincial Reform) is $84,039,565.
- Other property holdings (Tom Taylor Place, Leeder Place) is $12,220,015.
- Housing York's equity value has increased to $14,439,159, including consolidated Retained Earnings of $1,571,968 and Capital Replacement Reserves of $4,557,967.

6. LOCAL MUNICIPAL IMPACT

Housing York provides affordable housing throughout the local municipalities in York Region. The additional major repairs and retrofits completed in all municipalities enhance tenant living experiences through safe, efficient and well maintained housing communities.

7. CONCLUSION

Housing York has continued to operate its programs in accordance with program requirements and funding formula expectations. 2010 was a record year with more than $5.7 million in major repairs and retrofits being completed.

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

The Senior Management Group has reviewed this report.

Recommended by:

Sylvia Patterson
Assistant General Manager

Approved for Submission by:

Adelina Urbanski General Manager	Warren Marshall Assistant Treasurer

May 31, 2011

Attachments - 2

/cc
#3361976

Report Wizard v.1.2010