THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 20, 2012
Report of the
General Manager
and
Treasurer

2011 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2011 Financial Statements and explanatory notes for Housing York Inc. (see *Attachment 1*) be approved by the Board and submitted to York Region, in its role as Service Manager and Shareholder of the Corporation.

2. The attached 2011 Annual Information Return for the Housing York Inc. Provincial Reform Program (see *Attachment* 2) be approved by the Board and submitted to York Region, 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 audited financial statements is required as an annual submission to York Region in its role as Service Manager and for inclusion in the Region's overall financial results.

3. BACKGROUND

Financial disclosure to the Board is a compliance requirement

The audited financial statements are presented as draft until Board approval is received. Representatives from the audit firm have been invited to the board meeting to respond to any questions the Board might have. Following Board approval the financial statements are considered final and a copy is then provided to the Region, as Service Manager.

The Board approves Housing York financial statements in a consolidated format which include 2011 results. This facilitates 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 procedures performed on the Annual Information Return are 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 Housing York audit falls under the umbrella of the full York Region audit to ensure that inter-company transactions, such as subsidy and payroll costs, are fully examined on both sides. The 2011 audit for Housing York was completed during March and April 2012.

The auditors review various supplementary schedules to validate subsidy settlement for the various housing programs managed by Housing York. These supplementary schedules are provided to the Region but are not included in the package provided to the Board.

Portfolio snap shot reveals three distinct funding formulas

The funding formula for the Provincial Reform Program is based on the four components as shown in Table 1, under the Subsidy Eligibility section. Public Housing Program funding is the same as it was prior to the transfer of administrative responsibilities to the Region in November 2001. The Regional Housing Program is not eligible for any subsidy and funds its own capital reserve from operating surplus.

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	12	1,038	RGI 69% Market 31%	Mortgage, Taxes, RGI Subsidy and Mandatory Contribution to Capital Reserve
Public Housing	17	872	RGI 100%	Operating, which includes Capital
Regional Housing	4	207	Market 100%	No subsidy eligibility however, approximately 80% of the households receive financial assistance from the Region’s rent supplement program.
Total	**33**	**2,117**	RGI 82% Market 18%	

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, insurance claims, and strategic projects.

Surplus of $99,241 reported after Board approved internal allocations

Housing York is reporting continued financial stability. A surplus of $124,240 is reported on the Statement of Revenue and Expenditures and Retained Earnings following the mandatory contribution to the capital reserve. Of this amount, several internal Board approved allocations took place to establish a net operating surplus of $99,241. A summary is provided in Table 8 of this report.

Balance Sheet remains healthy

As at December 31, 2011, Housing York has total assets of $120,961,383 of which 88% was in property holdings, net of accumulated depreciation.

Overall, the change in assets is $9,941,854, or 9% higher than 2010. This increase is due to the addition of Thornhill Green, located in the Town of Markham, and Kingview Court expansion, located in the Township of King.

Table 2 summarizes the three main asset categories.

Table 2
Asset Summary

Balance Sheet – Assets Categories	2011	2010
Current Assets	$ 4,435,005	$ 5,422,755
Restricted Cash and Investments	10,391,051	9,202,194
Property Holdings	106,135,327	96,259,580
Energy Management Strategy	-	135,000
Total Assets	**$120,961,383**	**$111,019,529**

Housing York reallocated some funds from the bank to its restricted cash and investments holdings in 2011 which explains the decrease in current assets offset by the increase in restricted cash and investments.

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, 2011, Housing York has total liabilities of $98,185,541 comprised of current liabilities of $19,984,157 or 20% and building financing of $78,201,388 or 80%.

Table 3 summarizes the liability categories.

Table 3
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2011	2010
Accounts Payable and Accrued Liabilities	$ 1,988,374	$ 2,270,680
Deferred Revenue	562,194	625,316
Amounts Due to Regional Municipality of York	3,387,615	3,810,807
Current Portion of Mortgage Payable	14,045,974	3,574,985
Current Liabilities	**$19,984,157**	**$10,281,788**
Loan Agreements	5,834,000	5,834,000
Mortgages Payable	72,367,384	80,464,582
Total Liabilities	**$98,185,541**	**$96,580,370**

The Accounts Payable is slightly lower compared to last year. The deferred revenue amount of $562,194 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 the Region in 2011 is $3,387,615 broken down as follows:

Payroll, Regional Allocations, Energy Management Loan	$2,155,285
Subsidy Settlements (2010 and 2011)	1,232,330
Payable to York Region December 31, 2011	**$3,387,615**

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 higher than last year due to a mortgage renewal pending in 2012 at Thornhill Green and Rose Town properties. The mortgages at these sites are reclassified as current (short term) liability because they are fully payable within twelve months of the fiscal year ending.

Region's contribution for Kingview Court expansion boosts Housing York's equity

Overall, Housing York's equity is $8,336,683 higher than 2010 primarily due to the Region's contribution to Kingview Court expansion and the reserve funds for completion of the fifth year Energy Management Strategy projects. The higher equity is partially offset by planned spending against the reserves.

Table 4 summarizes the equity categories.

Table 4
Summary of Equity

Balance Sheet Equity	2011	2010
Reserve Fund for Capital Equipment Replacement	$5,511,985	$4,557,967
Reserve Fund for Energy Management Pilot Project	-	35,562
Reserve Fund for Energy Management Strategy	882,491	229,077
Reserve Fund for Emergency Power Project	539,541	539,541
Reserve Fund for Insurance Deductibles	161,127	162,630
Reserve Fund for Voyager Upgrade Project	93,454	210,105
Reserve Fund for Fairy Lake Pond	494,225	574,848
Reserve Fund for Strategic Projects	42,713	-
Shareholder Contribution	14,334,330	6,557,461
Retained Earnings	715,976	1,571,968
Total Equity	**$22,775,842**	**$14,439,159**

Table 5 summarizes 2011 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, 2011	**$4,557,967**	**$35,562**	**$229,077**	**$539,541**	**$162,630**
Transfers-In from operating	767,975	-	-	-	25,000
Transfers-In other sources	2,084,299	-	991,249	-	-
Expenditures in 2011	(1,898,256)	(35,562)	(337,835)	-	(26,503)
Balance - December 31, 2011	**$5,511,985**	**$**	**$882,491**	**$539,541**	**$161,127**

The *Social Housing Reform Act, 2000* requires housing providers to invest their capital reserve in a pooled investment fund through the Social Housing Service Corporation. The Social Housing Service Corporation, through its financial service company, offers a wide range of investment vehicles and expertise to ensure housing providers effectively invest their capital reserves. Housing York has invested $4,759,760 or 86.4% of its capital reserve in the mandatory Social Housing Investment Fund. The remaining portion of the reserve is invested in an interest earning bank account.

The $35,562 expended out of the energy management pilot reserve reflects the full repayment to Retained Earnings for the pilot retrofits completed in 2007, 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 the 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 four years, Housing York has borrowed only $800,000 from the Region, having successfully obtained alternative funding for most of the expenditures incurred so far.

Statement of Revenue and Expenditures and Retained Earnings reflects lower 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 2011 approved budget is provided for reference. The details of this financial statement are discussed in following sections.

Rent revenue below target due to delay in construction of new buildings

Housing York experienced delays in construction at two of the buildings that were expected to be brought in service in 2011 in one of its housing programs. There was a six-month construction delay at Mapleglen due to vandalism and a two-month delay at Kingview Court expansion. As a result, rental revenue was $636,174 or 4.3% lower than budget.

The rental revenue and minor miscellaneous revenue streams were on target for the rest of the portfolio. 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 2011.

Table 6
Summary of 2011 Revenues

Revenue Summary	2011 Budget	2011 Actual	$ Var. F/(U)	% Var. F/(U)
Rental Income	$14,905,692	$14,269,518	$(636,174)	(4.3)%
Non Rent Revenue	777,203	579,725	(197,478)	(25.4)%
Government Subsidies	8,726,038	8,356,720	(369,318)	(4.2)%
Operations Surplus	74,171	99,241	25,070	33.8%
Total Revenues	**$24,483,104**	**$23,305,204**	**$(1,177,900)**	**(4.8)%**

The subsidy budget is estimated and approved during the annual budget process. The 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 strong 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 the Region.

Operating expenses reflect lower mortgage costs, and under spending in utility expenses

Overall total operating expenses were $1,339,381 or 5.6% lower than budget as shown in Table 7.

Table 7
Summary of 2011 Expenses

Expenditure Summary	2011 Budget	2011 Actual	$ Var. F/(U)	% Var. F/(U)
Administration and Maintenance	$ 7,261,981	$ 7,503,881	$(241,900)	(3.3)%
Insurance	321,405	279,319	42,086	13.1%
Bad Debts	78,313	41,846	36,467	46.6%
Utilities	3,089,833	2,565,568	524,265	17.0%
Mortgage/Lease Payments	9,440,784	8,801,426	639,358	6.8%
Property Taxes	2,359,429	2,219,989	139,440	5.9%
Shelter Costs	77,322	70,143	7,179	9.3%
Public Housing Capital	1,123,303	930,817	192,486	17.1%
Total Expenditures	**$23,752,370**	**$22,412,989**	**$1,339,381**	**5.6%**

The administration and maintenance category includes building maintenance expenses, Regional payroll costs, and administrative overheads. The budget pressures in this category are higher than what Housing York experienced in the last two years. The negative variance of $241,900 or 3.3% is largely attributable to the significant increases in maintenance cost, which are a direct result of the increase in housing portfolio and increases in materials and services cost.

Insurance premiums continue to increase consistent with a two-year trend of sector-wide increases. However, the temporary favourable variance of $42,086 is another side effect of the construction delays on the two new buildings. Utility costs were under budget due to warmer winter weather conditions and energy conservation efforts.

Bad debts were under budget by $36,467 or 46.6% due to recoveries on aged accounts previously written off, as well as enhanced arrears collection efforts.

The significant variances on mortgages are a direct result of the delays in bringing Mapleglen building into service, and the favourable mortgage renewal rates for one of the properties that had its mortgage renewed in 2011. The mortgages and property taxes variances 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 $192,486 or 17.1% because 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 the 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 2011 Surplus Operating Funds

Total Revenue	$ 23,305,204
Total Expenses	(22,412,989)
Excess Revenue over Expenditures	892,215
Contribution to Capital Reserve Fund	(767,975)
Excess Revenue over Expenditures Available for Internal Use	**$ 124,240**
Non-Program/Non-cash Transactions – Building Depreciation	$(274,914)
Retained Earnings, January 1, 2011	1,571,968
Contributions from Insurance Reserve	(25,000)
Energy Management Program	(738,050)
Strategic Projects	(50,000)
Transfer in Thornhill Green	273,863
Prior year's subsidy settlement	(168,144)
Blue Door Shelter Capital Reserve adjustment	2,013
Retained Earnings, December 31, 2011	**$ 715,976**

In order to comply with *Generally Accepted Accounting Principles* (GAAP), Housing York is required to report depreciation expense on buildings that are not covered by the *Social Housing Reform Act, 2000* (SHRA). Building depreciation, in the amount of $274,914 is reported on Tom Taylor Place, Kingview Court expansion, and Leeder Place.

Depreciation expense is a non-program, non-cash transaction. It reduces Retained Earnings on the corporation's consolidated financial statements. However, Housing York maintains various schedules for the Service Manager to reconcile Retained Earnings under GAAP and SHRA. Detailed information on Housing York's amortization policies for SHRA 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 $3,285,436 at the end of 2011 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) returning to normal levels

With the conclusion of grants infusion from the second year of the Social Housing Repair and Renovation Program, Housing York's capital investments in its buildings return to normal levels. Over $3.7 million dollars was approved, with 24% being funded via economic stimulus plan, allowing for a significant number of capital projects to be completed.

The acquisition of Thornhill Green in the first quarter of 2011 had a positive impact on the capital reserve fund. The additional capital investment funds approved for this property helped to increase the balance in the capital reserve fund to $5,511,985 at the end of the year from $4,557,967 at the beginning of the year, as noted in Table 4.

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	$1,898,257
Funded from the Operating Budget:	
Public Housing Program	930,817
Funded from Additional Agreements:	
Social Housing Repair and Retrofit Program	875,175
2011 Major Repairs and Replacement Expenditures	**$3,704,249**

5. FINANCIAL IMPLICATIONS

Housing York Inc. ended the year in a positive position and the following are notable indicators of net financial position as at December 31, 2011:

- Property holdings have increased by $9,795,068 to $106,054,648 due to growth.
- Housing York's equity value has increased to $22,775,842, including consolidated Retained Earnings of $715,976 and Capital Replacement Reserves of $5,511,985.

6. LOCAL MUNICIPAL IMPACT

Housing York Inc. 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 Inc. has continued to operate in accordance with program requirements and funding formula expectations. 2011 was a year of growth with 140 new units being added to the portfolio in three communities, and more than $3.7 million in major repairs and retrofits completed.

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.

Recommended by:

Sylvia Patterson
Assistant General Manager

Approved for Submission by:

Adelina Urbanski
General Manager

Bill Hughes
Treasurer

May 16, 2012

Attachments - 2

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