THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 4, 2008
Report of the
General Manager
and
Treasurer

2007 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The 2007 Financial Statements (*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 2007 Annual Information Return (*see Attachment 2)* for the Provincial Reform Program be approved by the Board and submitted to The Regional Municipality of York.

2. PURPOSE

The annual financial statements for Housing York Inc., 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 Housing York Inc. financial statements in a consolidated format which include 2006 results. This facilitates year-over-year financial comparisons (*see Attachment 1*). It should be noted that certain 2006 comparative figures shown on the Statement of Revenue and Expenditures and Retained Earnings have been reclassified to conform to the funding model in the Provincial Reform Program.

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 (*see Attachment 2*). 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 Housing York Inc. 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 2007 audit for Housing York Inc. was completed in March 2008 by the audit firm of KPMG LLP, Chartered Accountants (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 Housing York Inc.

Program review is necessary due to differences in funding formulas

The funding formula for the Provincial Reform Program was changed by the Ministry of Municipal Affairs and Housing in 2006. Otherwise, the program delivery 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. The Regional Housing Program, implemented in 2003, is not eligible for operating subsidy.

A summary of Housing York Inc.'s program delivery is as follows:

Table 1
Summary of Housing York Inc.'s Program Delivery

Program	Number of Buildings	Number of Units	Tenant Mix	Unit Mix
Provincial Reform	11	937	Seniors 43% Family 57%	Rent-geared-to-income 72% Market 28%
Public Housing	17	872	Seniors 99% Family 1%	Rent-geared-to-income 100%
Regional Housing	2	118	Seniors 100%	Market 100% *
Total	**30**	**1,927**	Seniors 72% Family 28%	Rent-geared-to-income 80% Market 20%

* Percentage of units subsidized through Rent Supplement Program.

In addition, Housing York Inc. has limited reporting responsibility for the Transitional and Supportive Housing Services of York Region 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 Inc. 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, and supplementary notes and tables. All results are consolidated at the corporate level of Housing York Inc. as is customary for financial statement presentation.

York Region provides distinct formula-driven funding calculations for both of Housing York Inc.'s major housing programs. However, the Province legislates the program administration requirements for both the Provincial Reform and Public Housing portfolios through the *Social Housing Reform Act, 2000*.

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. All three discretionary reserves appeared on the Corporation's financial statements for the first time in 2006.

Operating surplus for 2007

From a financial perspective, Housing York Inc. is reporting a successful year of operation with $190,819 excess revenue over expenditures. Of this amount $73,000 was internally allocated to fund discretionary reserves resulting in a net operating surplus of $117,819 towards Retained Earnings. The balance of Retained Earnings at year end is $1,798,902.

Balance Sheet remains healthy

As at December 31, 2007, Housing York Inc. has total assets of $107,221,674 of which 87% was in property holdings, net of accumulated depreciation. Overall the change in assets is $2,181,939 or 2.0% lower than 2006, a reflection of building amortization (depreciation).

Asset mix essentially unchanged

The following table summarizes the three main asset categories.

Table 2
Asset Summary

Balance Sheet – Assets Categories	2007	2006
Current Assets	$ 3,210,365	$ 2,104,780
Restricted Cash and Investments	10,411,996	10,942,940
Income Producing Properties	93,599,313	96,355,893
Total Assets	**$107,221,674**	**$109,403,613**

Current assets are higher than 2006 due to the full year cash flow impact of Trinity Square located in the Town of Markham and Blue Willow Terrace located in the City of Vaughan.

Restricted cash and investment items include tenant rental deposits, the capital reserve, the discretionary reserve funds, and investments related to surplus operating funds. This asset category is lower mostly due to the draw on reserves to cover various approved expenditures. Further information regarding Housing York Inc.'s reserves is discussed on page 9 of this report.

The decrease in income producing properties of $2,756,580 reflects amortization of the Provincial Reform buildings. Land, buildings, and equipment for these properties are amortized over the term of the individual mortgages at a rate equal to the annual charges for principal repayments on these mortgages.

Liabilities slightly lower than last year due to 2006 mortgage refinancing

As at December 31, 2007, Housing York Inc. has total liabilities of $98,842,942 comprised of current liabilities of $16,315,248 or 16.5%, and mortgages payable of $82,527,694 or 83.5%.

Table 3 summarizes the liability categories.

Table 3
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2007	2006
Accounts Payable and Accrued Liabilities	$ 2,239,689	$ 1,769,891
Deferred Revenue	428,356	444,807
Amounts Due to Regional Municipality of York	2,890,584	1,824,762
Current Portion of Mortgage Payable	10,756,619	15,193,052
Current Liabilities:	**16,315,248**	**19,232,512**
Mortgages Payable	82,527,694	80,847,841
Total Liabilities	**$98,842,942**	**$100,080,353**

Mortgages are reported in two components. The current or short term portion is the amount payable within a year. In 2008, this is $10,756,619. The long term portion that is payable in future years after 2008 is $82,527,694. Overall the full value of the mortgages in 2007 is $93,284,313 compared to $96,040,893 in 2006.

The payable owing to York Region in 2007 is $2,890,584 compared to $1,824,762 in 2006. For information purposes, the breakdown for the 2007 payable is as follows:

Payroll and Regional Allocations for 2007	$1,277,935
Subsidy Settlements 2006 and 2007	1,612,649
Payable to York Region December 31, 2007	**$2,890,584**

The deferred revenue amount of $428,356 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.

Equity (including Reserve Funds) is lower due to planned expenditures

The equity portion of the Balance Sheet includes Retained Earnings and Reserve Funds. Combined with the liabilities section, these two components equal total assets shown in Table 2.

As shown in Table 4, overall the Corporation's equity is $944,528 lower than 2006 mostly due to the planned spending against the reserves, most notably the capital reserve account.

Table 4
Summary of Equity

Balance Sheet Equity	2007	2006
Reserve Fund for Capital Equipment Replacement	$5,443,552	$6,227,986
Reserve Fund for Energy Management Project	165,534	428,084
Reserve Fund for Emergency Power Plan Project	789,358	834,177
Reserve Fund for Insurance Deductibles	181,386	151,930
Retained Earnings	1,798,902	1,681,083
Total Equity	**$8,378,732**	**$9,323,260**

Table 5 summarizes 2007 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, 2007	$ 6,227,986	$ 428,084	$ 834,177	$ 151, 930
Mandatory Contribution	673,681	-	-	-
Transfers-In	280,145	211,638	-	-
Expenditures in 2007	(1,738,260)	(474,188)	(44,819)	(20,544)
Balance December 31, 2007	**$ 5,443,552**	**$ 165,534**	**$ 789,358**	**$ 181,386**

The *Social Housing Reform Act, 2000* requires housing providers to invest their Capital Reserve in a pooled investment fund. Housing York Inc. has invested $4,763,092 of its capital reserve of which $4,637,174 or 97.3% is held in the pooled investment fund. The remaining portion of the reserve is invested in cash or provincial bond.

Statement of Revenue and Expenditures and Retained Earnings reflects higher 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 2007 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 lowers subsidy requirements

As can be seen in Table 6, revenues for tenant rent and other sources of operating income were higher than budget. This reduces the amount of subsidy the Corporation is eligible to receive as is reflected in the budget estimate of $8,235,543 versus the actual subsidy amount of $7,565,153.

Table 6
Summary of 2007 Revenues

Revenue Summary	2007 Budget	2007 Actual	$ Var.	% Var.
Government Subsidies	$ 8,235,543	$ 7,565,153	$ (670,390)	(8.1)%
Rental Income	11,917,819	12,257,214	339,395	2.9%
Other	122,587	140,819	18,232	14.9%
Sundry	309,931	525,065	215,134	69.4%
Recognition of Utility Savings		23,000	23,000	-
Total Revenues	**$20,585,880**	**$20,511,251**	**$ (74,629)**	**(0.4)%**

The subsidy budget is estimated and approved during the annual budget process. The Region flows the estimated funds to Housing York Inc. throughout the year. At year end the actual subsidy entitlement is recalculated based on known financial results to determine whether Housing York Inc. is allowed more or less funding than what has been provided. Due to the higher rental income that the Corporation was able to generate during 2007, the actual subsidy eligibility was less than the budget estimate. The overpayment is ultimately captured as a payable owing to York Region.

Rent revenue was $339,395 or 2.9% higher than budget due to the actual unit mix related to market versus rent-geared-to-income tenancies.

The remaining miscellaneous revenue streams are not significant income sources. However, it should be noted that sundry revenue of $525,065 was higher than budget by $215,134 mostly due to the revised process for reporting bank interest under the new funding formula.

For the first time the energy management pilot projects are producing utility savings. By year end $23,000 in savings was generated at Elmwood Gardens located in the Town of Whitchurch-Stouffville and Founders Place located in the Town of Newmarket. This amount was subsequently reinvested as a contribution back into the Energy Management Reserve.

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

Overall total operating expenses were $186,820 or 1.0% lower than budget.

The administration and maintenance category includes all building maintenance expenses, all payroll costs, and administrative overheads. The budget pressures experienced in this category is just over $520,000 or 9.6%. This continues the trend that was seen in 2006. The 2007 funding formula did not recognize any escalation factors for building services or labour; however, this has been changed for 2008. Under spending the utility budget offset the unfavourable variance reported in this category.

The savings of $56,227 for mortgage and lease payments and $78,880 for property taxes do not carry any financial impact on Housing York Inc.'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.

The remaining spending categories where there are favourable or unfavourable budget variances are all areas where the Corporation has the flexibility to work within its total approved budget. None are considered material.

Table 7 identifies the budget variance by dollar amount and by percentage for each expenditure category. The expense categories have been reformatted to align to the Provincial Reform funding model.

Table 7
Summary of 2007 Operating Expenses

Expenditure Summary	2007 Budget	2007 Actual	$ Var. F/(U)	% Var. F/(U)
Administration and Maintenance	$ 5,442,996	$ 5,963,156	$ (520,160)	(9.6)%
Insurance	169,598	164,461	5,137	3.0%
Bad Debts	73,757	78,796	(5,039)	(6.8)%
Utilities	2,628,489	1,998,262	630,227	24.0%
Mortgage/Lease Payments	8,389,101	8,332,874	56,227	0.7%
Property Taxes	1,980,130	1,901,250	78,880	4.0%
Public Housing Capital	1,149,500	1,207,952	(58,452)	(5.1)%
Total Expenditures	**$19,833,571**	**$19,646,751**	**$ 186,820**	**1.0%**

Operating surplus funds mandatory and discretionary contributions to reserves and directs $117K to retained earnings

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

Table 8
Distribution of Surplus Operating Funds

Total revenue	$ 20,511,251
Total expenses	(19,646,751)
Excess revenue over expenditures:	864,500
Mandatory contribution to capital reserve fund	(673,661)
Excess revenue over expenditures available for internal use	**$ 190,819**
Allocations to Internally Restricted Reserve Funds	
Energy management (utility savings)	$ 23,000
Insurance reserve (annual contribution)	50,000
Retained Earnings	117,819
Total Distribution of 2007 Operating Surplus	**$ 190,819**

Statement of Cash Flows validates reported results

This statement monitors the movement of funds in and out of Housing York Inc. throughout the year. The amount of $2,209,354 at the end of 2007 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 2006 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 as follows 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	$1,738,260
Funded from the Operating Budget:	
Public Housing Program	1,207,952
2007 Major Repairs and Replacement Expenditures	**$2,946,212**

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, 2007:

- Provincial Reform mortgage value of properties is $93,284,313.
- Provincial Reform retained earnings is $1,798,902.
- Provincial Reform and Regional Housing Program Capital Replacement Reserve is $5,443,552.
- 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. From a financial perspective, operating costs were managed within the budget envelope while still making a 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.

Recommended by:

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Assistant General Manager

Approved for Submission:

Joann Simmons General Manager	Lloyd Russell Treasurer

May 28, 2008

Attachments - 2

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