THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 6, 2007
Report of the
General Manager
and
Treasurer

2006 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2006 Financial Statements and explanatory notes for Housing York Inc., along with the Auditor's Report, 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 2006 Annual Information Returns for the Housing York Inc. Provincial Reform Program and Trinity Square 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 returns, 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

The 2006 audit for HYI was completed in March 2007 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 2006, HYI operated housing properties under three separate housing programs:

1. Provincial Reform Program (11 buildings)
2. Public Housing Program (17 buildings)
3. Regional Housing Program (2 buildings)

In addition, HYI acquired the Transitional and Supportive Housing emergency shelter site during the year. While this site is funded in a manner consistent with the Provincial Reform Program, HYI's financial reporting is limited. The financial results pertaining to the mortgage, capital reserve and subsidy flow-through are included in the Corporation's financial statements, however the preparation of any other financial reports are the responsibility of the agency providing service at the site.

The results for HYI are presented in a consolidated format and include 2005 results in order to facilitate a year-over-year comparison (*see Attachment 1*). It should be noted that growth in the portfolio during the last two years essentially accounts for the large variances in year-over-year 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 (*see Attachment 2a*). Additionally, to accommodate the partial year inclusion of Trinity Square into the HYI portfolio, the Service Manager requested a separate Annual Information Return for this building covering the period from acquisition on March 1, 2006 until December 31, 2006 (*see Attachment 2b*). In both cases, the audit review of Annual Information Return is based on specific auditing procedures agreed to between York Region and KPMG.

The financial information provided directly to the Service Manager includes the Board approved documents plus supplemental schedules at the program level for the purpose of validating subsidy settlement for the various programs.

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 funding formula for the Provincial Reform program was changed by the Ministry of Municipal Affairs and Housing commencing with the 2006 fiscal year and this is the first year for calculating subsidy settlement using the new methodology.

3.1 Provincial Reform Program

With the addition of 100 units at Trinity Square in March 2006, there are now 11 mortgage-financed buildings in this program which collectively offer 937 units of affordable housing. There is a mix of 532 family/single units and the balance is comprised of seniors' apartments. Approximately 72% of the units are rent-geared-to-income (RGI) and 28% of the units in the program are considered market.

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.

3.2 Public Housing Program

HYI operated 872 RGI units of affordable housing under the Public Housing program, which is the same as prior years. A capital reserve replacement fund and retained earnings are not 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 in the HYI financial statements.

3.3 Regional Housing Program

Armitage Gardens became operational in 2004 when 58 units were opened. Blue Willow Terrace opened in October 2006 adding 60 more units to this program for a total of 118.

This program is financially self-sustaining and therefore not eligible for Regional subsidy. Rental income collected by HYI is used to pay lease payments to the Region to cover debenture financing. Any surplus operating funds that this program generates is directed to a capital reserve for future investment in these buildings.

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 as is customary for financial statement presentation.

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*.

Based on prior year decisions made by the Board of Directors new reserves are reflected on the financial statements to restrict a portion of accumulated Retained Earnings for specified uses related to the energy management strategy, emergency power, and insurance deductibles. These reserves appear on the Corporation's financial statements for the first time in 2006.

4.2 Financial Analysis

From a financial perspective HYI is reporting a successful year of operation with $200,652 being contributed to Retained Earnings as noted on the Statement of Revenue and Expenditure and Retained Earnings.

At December 31, 2006, the Capital Replacement Reserve amounted to $6,227,986 reflecting an increase from the prior year end balance as a result of property acquisitions.

4.2.1 Balance Sheet

As at December 31, 2006, HYI has total assets of $109,403,613 of which 88% was in property holdings, net of accumulated depreciation.

4.2.1.1 Assets

The following table summarizes the three main asset categories:

Table 1
Asset Summary

Balance Sheet – Assets Categories	2006	2005
Current Assets	$ 2,104,780	$ 2,633,164
Restricted Cash and Investments	10,942,940	8,984,095
Income Producing Properties	96,355,893	83,090,178
Total Assets	**$109,403,613**	**$ 94,707,437**

Overall the change in assets is $14,696,176 or 15.5% higher than 2005. This is due to the growth in the portfolio with the addition of new buildings. Current assets are lower than 2005 and restricted cash and investments are higher than last year largely because of the reallocation of more than $1.6 million to establish three new reserves for energy management, emergency power, and insurance deductibles. Further information concerning HYI's reserves is discussed in Section 4.2.3. of the report.

The increase in income producing properties of $13,265,715 reflects the acquisition of the new properties, net of amortization. Land, buildings and equipment for all Provincial Reform properties is amortized over the term of the individual mortgages at a rate equal to the annual charges for principal repayments on these mortgages.

Restricted cash items include tenant rental deposits, the capital reserve, the new specified-use reserve funds, and investments related to surplus operating funds.

4.2.1.2 Liabilities

The following table summarizes the liability categories:

Table 2
Liability Summary

Balance Sheet - Short and Long Term Liabilities	**2006**	**2005**
Accounts Payable and Accrued Liabilities	$ 1,769,891	$ 1,884,646
Deferred Revenue	444,807	297,130
Amounts Due to Regional Municipality of York	1,824,762	909,103
Current Portion of Mortgage Payable	15,193,052	2,143,624
Current Liabilities:	**19,232,512**	**5,234,503**
Mortgages Payable	80,847,841	80,631,554
Total Liabilities	**$100,080,353**	**$ 85,866,057**

As at December 31, 2006, HYI has total liabilities of $100,080,353 comprised of current liabilities of $19,232,512 or 19.2%, and mortgages payable of $80,847,841 or 80.8%. Mortgages are reported in two components, the current or short term portion that is payable within a year, which is $15,193,052, and the long term portion of $80,847,841 payable in future years after 2007. The current portion is much higher in 2006 compared to 2005. This is because the mortgage for Mulock Village matures in 2007 rendering the full amount due in 2007 until it is ultimately renegotiated. Overall the full value of the mortgages in 2006 is $96,040,893 compared to $82,775,178 in 2005; the increase is attributable to the financing associated with the new properties.

The amount owing to York Region in 2006 is $1,824,762 compared to $909,103 in 2005. For information purposes, the breakdown for the 2006 payable is as follows:

- Payroll and Regional Allocations for 2006 — $ 840,377
- Subsidy Settlements 2005 and 2006 — 984,385
- Due to York Region as of Year End — **$1,824,762**

The deferred revenue amount of $444,807 consists of last month's rent deposits as well as antenna revenue and subsidy payments applicable to future periods. These amounts are recognized as revenue in the appropriate future period or returned to tenants, depending on the applicable circumstances.

4.2.1.3 Equity (including Reserve Funds)

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 1.

As noted earlier in this report, Retained Earnings have been restructured to restrict previously approved funds for specified uses. Overall, the Corporation's equity is $481,880 higher than 2005 largely due to the transfer in of capital reserves from property acquisitions.

Table 3
Summary of Equity

Balance Sheet - Equity:	**2006**	**2005**
Reserve Fund for Capital Equipment Replacement	$ 6,227,986	$ 5,750,449
Reserve Fund for Energy Management Project	428,084	-
Reserve Fund for Emergency Power Plan Project	834,177	-
Reserve Fund for Insurance Deductibles	151,930	-
Retained Earnings	1,681,083	3,090,931
Total Equity	**$ 9,323,260**	**$ 8,841,380**

The following chart summarizes 2006 activity in and out of the reserves:

Table 4
Summary of Reserve Activity

	Capital Reserve	**Energy Management Reserve**	**Emergency Power Reserve**	**Insurance Reserve**
Balance January 1, 2006	$ 5,750,449	-	-	-
Mandatory Contribution	533,476	-	-	-
Transfers-In	1,381,759	9,700	-	-
Approved Contribution from Retained Earnings	-	500,000	910,500	200,000
Expenditures in 2006	(1,437,698)	(81,616)	(76,323)	(48,070)
Balance December 31, 2006	**$ 6,227,986**	**$ 428,084**	**$ 834,177**	**$ 151,930**

The transfer of $1,381,759 into the capital reserve comprises $1,133,639 from the acquisition of new properties and $248,120 interest earned on investments. The $9,700 transferred into the energy management reserve represents incentive funding received for the project.

The *Social Housing Reform Act, 2000* requires housing providers to invest their capital reserve in a pooled investment fund. HYI has invested $6,078,292 of its capital reserve of which $5,731,657 or 94.3% is held in the pooled investment fund. The remaining $346,635 is invested in a provincial bond. The bond investment was acquired through a property acquisition and is earning an appealing rate of return and is therefore being held until maturity.

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 overheads. The 2006 Budget is also provided for reference.

4.2.2.1 Revenue

As can be seen in the table below, revenues for tenant rent and other sources of operating income where higher than budget. This reduces the amount of subsidy the Corporation is eligible to receive as is reflected in the budget estimate of $7,894,200 versus the actual amount of $6,961,627.

Table 5
Summary of 2006 Revenues

Revenue Summary:	2006 Budget	2006 Actual	$ Var.	% Var.
Government Subsidies	$ 7,894,200	$ 6,961,627	$ (932,573)	(11.8)%
Rental Income	11,105,500	11,347,377	241,877	2.2%
Property Management Fees	30,000	12,943	(17,057)	(56.9)%
Other	-	200,652	200,653	-
Sundry	265,013	425,357	160,344	60.5%
Total Revenues	**$ 19,294,713**	**$ 18,947,956**	**$ (346,757)**	**(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 known financial results to determine whether HYI 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 2006, 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 $241,877 or 2.2% higher than budget due to the actual unit mix related to market versus RGI tenancies. Property management fees charged to Trinity Square for two months were based on revised administrative allocations that were less than budget estimates. The amount of $200,653 for Other and Interest income represents the surplus operating income that HYI has generated in 2006 and is allowed to keep under program rules.

Sundry revenue of $425,357 was considerably higher than budget due to changes in the way bank interest is reported under the new funding formula for the Provincial Reform program.

4.2.2.2 Operating Expenses

Overall total operating expenses were $469,612 or 2.5% lower than budget. The following table identifies the budget variance by dollar amount and by percentage for each expenditure category:

Table 6
Summary of 2006 Operating Expenses

Expenditure Summary:	2006 Budget	2006 Actual	$ Var.	% Var.
Amortization of Mortgages	$ 7,638,333	$ 7,636,907	$ 1,426	0.0%
Lease Payments (Regional Debenture)	312,722	312,825	(103)	0.0%
Material and Services	1,681,740	2,058,487	(376,747)	(22.4)%
Professional Fees	48,033	41,810	6,223	13.0%
Municipal Taxes	1,907,173	1,793,790	113,383	5.9%
Contracted Services	3,113,196	2,863,246	249,950	8.0%
Rent	159,839	160,350	(511)	(0.3)%
Equipment Purchases/Rentals	33,527	22,780	10,747	32.1%
Administration	39,440	54,835	(15,395)	(39.0)%
Office	17,000	20,196	(3,196)	(18.8)%
Transportation	34,040	54,612	(20,572)	(60.4)%
Utilities	2,233,698	1,825,216	408,482	18.3%
Telephone	30,523	36,473	(5,950)	(19.5)%
Seminars/Training	1,500	-	1,500	100.0%
Other Operating Costs	274,176	308,053	(33,877)	(12.4)%
Public Housing Capital	1,158,500	1,024,248	134,252	11.6%
Total Expenditures	**$ 18,683,440**	**$ 18,213,828**	**$ 469,612**	**2.5%**

There were significant budget pressures on building material and services during 2006 which resulted in overspending by $376,747 or 22.4%. The mid year report to the Board in September identified these pressures and forecast that the overage could be managed within the budget envelope from savings in contracted services and utilities. As can be noted, contracted savings was under spent by $249,950 or 8.0% below budget, and utilities was lower than budget by $408,482 or 18.3%. The savings in contracted services is largely the result of delayed hiring of staff and the savings in utilities is related to lower consumption.

The savings of $113,383 for property taxes and $134,252 for Public Housing Capital has no 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.

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 approved budget. Transportation was higher than budget due to interim organizational changes that were in place for most of the year. Other Operating Costs were higher than budget where increases in both insurance and bad debts expense were noted as a result of the growth in the portfolio.

4.2.2.3 Operating Surplus

The excess of revenue over expenditures was $734,128 of which $533,476 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 $200,652 which HYI has 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 $1,437,159 at the end of 2006 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.

4.2.4 Major Repairs/Replacement Expenditures (Capital)

As noted in Table 4 the value of the capital reserve replacement fund is higher than 2005 because inflows were greater than expenditures following two property acquisitions.

Major repairs and replacement expenditures in the Public Housing portfolio are funded through the operating subsidy payment process and not the reserve fund. In 2006 major Public Housing repairs and replacement expenditures were $1,024,248 which is 88.4% of the Public Housing capital budget.

Funding sources for all major repairs and replacement expenditures for all programs are summarized as follows:

Table 7

Funding for Major Repairs and Replacement (Capital)

Funded from the Capital Reserve Replacement Fund:	
Provincial Reform and Regional Housing Program	$ 1,437,698
Funded from the Operating Budget:	
Public Housing Program	1,024,248
2006 Major Repairs and Replacement Expenditures	**$ 2,461,946**

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, 2006:

- Provincial Reform mortgage value of properties is $96,040,893.
- Provincial Reform retained earnings is $1,681,083.
- Provincial Reform and Regional Housing Program Capital Replacement Reserve is $6,227,986.
- The latest Current Value Assessment of all properties is dated 2005 and is estimated at $174,435,660 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, including the ramp up expenses for new properties, were managed within the budget envelope while still making a contribution to retained earnings. Major repairs and replacements have been made within the limits of the budget and capital improvement plan.

For more information on this report contact Sylvia Patterson, Assistant General Manager, Housing York Inc., Housing Services Branch in the Community Services and Housing Department.

The Senior Management Group has reviewed this report.

Reviewed by:

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Recommended by:

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Treasurer

Approved for Submission:

Joann Simmons
General Manager

May 25, 2007

Attachments – 2
KC/DM/SP/DR/sn

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