THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 7, 2006
Report of the
General Manager
and
Treasurer

HOUSING YORK INC.
2005 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The attached 2005 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, Service Manager and Shareholder.

2. The attached 2005 Annual Information Return for the Housing York Inc. Provincial Reform Program and Woodbridge Lane be approved by the Board and submitted to The Regional Municipality of York, Service Manager and Shareholder.

2. PURPOSE

The annual financial statements for Housing York Inc. (HYI) are presented to the Board of Directors for approval *(see Attachment 1)*.

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 Regional Municipality of York in its role as Service Manager and for inclusion in York Region's overall financial results.

3. BACKGROUND

The 2005 audit for HYI was completed in March 2006 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 2005, HYI operated housing properties under three separate housing programs:
1. Provincial Reform Program.
2. Public Housing Program.
3. Region Housing Program (Armitage Gardens).

The results are presented in a consolidated format and include 2004 results in order to facilitate a year-over-year comparison. The information provided directly to the Service Manager includes additional schedules at the program level.

An Annual Information Return is once again prepared for the Provincial Reform Program properties as required for the Service Manager. Additionally, to accommodate the partial year inclusion of Woodbridge Lane in the HYI portfolio, the Service Manager requested a separate Annual Information Return for this building. The audit review of Annual Information Return is based on specified auditing procedures agreed to between York Region and KPMG *(see Attachment 2)*.

The program delivery and funding formulas 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.

3.1 Provincial Reform Program

With the addition of 14 units at Woodbridge Lane in May 2005, there are now 10 mortgage-financed buildings in this program which collectively offer 837 units of affordable housing. There is a mix of 456 family/single units and the balance is comprised of seniors' apartments. Approximately 27% of the units in the program are market and 73% are rent-geared-to-income (RGI).

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 currently 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 Region Housing Program

Armitage Gardens became operational in 2004 when 58 new units were opened. HYI operates this site on behalf of York Region. It 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 building generates are directed to a capital reserve for future investment in this building.

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*.

4.2 Financial Analysis

Following mandatory contributions to the capital reserve fund, HYI improved its financial position in 2005 by generating $22,157 in surplus funds to increase Retained Earnings to $3,090,931. At December 31, 2005 the Capital Replacement Reserve amounted to $5,750,449, reflecting a small but expected decrease from the prior year end.

4.2.1 Balance Sheet

As at December 31, 2005, HYI has total assets of $94,707,437 of which 85% was in property holdings, net of accumulated depreciation.

Cash assets are lower than 2004 year-end by approximately $2,809,284. An investment in December 2005 is the primary reason for the change whereby surplus operating funds were invested in short term securities. This resulted in an asset reclassification from Cash to Restricted Funds. In 2004 surplus operating funds were maintained in the Cash account pending approval of the HYI Investment Strategy policy.

All Accounts Receivable categories are generally comparable to 2004 except for “Other” which is $253,663 or 69.1% lower at the end of 2005. In December 2005 a receivable owing to HYI from the Town of Newmarket was satisfied when the transfer of the Stickwood Walker parcel of land was transferred to HYI. The value of the land, which was $315,000 at the time of transfer, is classified as an asset in the “Income-producing properties” category.

Restricted cash items include tenant rental deposits and the capital reserve fund. For informational purposes, $5,546,509 or 96.5% of the reserve fund is invested in the Social Housing Services Corporation (SHSC) mandatory investment program. As noted above, surplus operating funds were invested during 2005 under the new investment policy and are reported at a value of $3,066,287.

As at December 31, 2005, HYI has total liabilities of $85,866,057 comprised of current liabilities of $5,234,503 or 6.1%, and mortgages payable of $80,631,554 or 93.9%. The book value of the mortgages on a year over year basis can be determined by adding both the current portion and the long term portion of the mortgage payable. In 2005 the value of the mortgages is $82,775,178 compared to $84,786,671 in 2004. The difference of $2,011,493 could be likened to amortization of the buildings. This is the primary reason why the balance sheet reflects slightly lower overall values compared to last year. It should be noted that Woodbridge Lane is excluded from the building analysis as the financial transfer to HYI is expected to be fully completed in 2006.

Equity, which includes retained earnings of $3,090,931 and the capital reserve fund of $5,750,449, is solely attributable to the Provincial Reform portfolio. As at December 31, 2005 total equity was $8,841,380 which is slightly less than last year due to a modest draw on the capital reserve, partially offset by an increase in retained earning which is discussed in the next section. The reserve fund for capital equipment replacement is discussed in more detail in Section 4.2.4.

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 2005 budget is also provided for reference.

Overall, total revenues of $17,058,702 were $277,697 or 1.6% higher than budget despite lower operating subsidies which were about $155,539 or 2.4% less than budget. Subsidy eligibility is determined and approved during the annual budget process and the Region flows these funds throughout the year. However, the amounts are recalculated at year end when actual financial results are known as HYI may be eligible for more or less funding than what has been provided. In the year end financial statements HYI reports actual subsidy entitlement on the Statement of Revenue and Expenditures and Retained Earnings and identifies any incremental difference owing to or from the Region on the Balance Sheet, in conjunction with other related-party transactions.

Rent revenue was $324,935 or 3.2% higher than plan largely due to the actual outcome of unit mix related to market versus RGI tenancies. Additionally, HYI earned $25,054 of unplanned revenue for property management services provided to the City of Vaughan Non Profit Housing Corporation for one month at the beginning of the year, and two months property management services to Holy Trinity Non-Profit Residences-York at the end of the year. The amount of $103,089 for Other and Interest income is the rent incentive income that HYI is allowed to keep under program rules along with interest earned on operating funds. Sundry revenue of $294,028 was higher than budget by $47,967 or 1.9% representing favourable returns for parking, laundry and antenna income. These positive results are partially offset by a prior year accounting restatement of $67,809 determined by the Service Manager in the annual settlement process.

Overall total operating expenses were $235,375 or 1.4% higher than budget. These were funded from the incremental operating revenue that HYI generated throughout the year. Within the individual categories of operating expenses, the following explanations are offered based on materiality limits of plus or minus 2% or $10,000 from budget:

- Mortgage expenses were $21,879 higher than budget. While this is only a .3% variance, the difference is explained by the mid-year acquisition of the Woodbridge Lane property partially offset by savings on mortgage renewals at Glenwood Mews and Oxford Village.

- Building materials and services were $374,852 or 25.9% higher than budget due to temporary vacancies in building superintendent positions. Three staff vacancies necessitated several third party contracts to provide temporary coverage in the buildings for services that would otherwise be provided internally. Higher than planned turnover at a family site also generated additional spending to restore units to acceptable standards. These issues were identified to the Board in the mid-year financial report.

- Property taxes were $54,610 or 3.4% higher than budget. These are a flow through cost in the subsidy formula and have no direct impact on HYI's financial performance.

- Contracted services are costs related to Regional staff supporting HYI. This year the results are $64,457 or 2.4% less than budget but still higher than originally anticipated. As noted in the mid-year financial report to the Board, the building superintendent position was reclassified effective June 2005. The adjustment in labour rates carries an estimated annual impact of $194,584 per year of which HYI absorbed a half-year impact during 2005. The three superintendent vacancies mentioned earlier more than offset the reclassification costs in 2005 resulting in an overall favourable outcome for Contracted Services, however, labour costs would have been about $108,000 lower without the reclassification. The full year impact of the reclassification has been incorporated in HYI's 2006 budget.

- Rent is $20,358 or 14.8% higher than budget primarily due to unanticipated utility costs in the Gorham office lease agreement.

- Administration costs were higher than budget by $12,340 or 40.6% related to various unplanned expenditures such as printing, advertising and legal fees.

- Office costs were $10,239 or 51.1% below budget as office supplies were significantly lower than expected.

- Transportation costs were $10,273 or 32.8% higher than plan due to organizational changes and the addition of multiple new properties to manage.

- Utility costs were $128,529 or 6.9% lower than budget as a result of price credits for hydro and gas that were received at year end.

- Other operating costs, which include insurance and bad debts, were $6,336 or 2.5% lower than budget due to lower insurance premium costs.

- Public Housing Capital was $46,345 or 4.3% lower than budget as some contracts were awarded at lower than expected estimates.

The excess of revenue over expenditures was $498,326 of which $476,169 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 $22,157 which HYI is 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 $2,078,755 at the end of 2005 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 Section 4.2.1, the value of the capital reserve replacement fund is lower than 2004 as a result of expenditures exceeding the mandatory contribution as shown in the following table:

Table 1

Description	**2005**
Balance, Beginning of Year	$5,785,922
Transfer In from Operating	476,169
Transfer In – Woodbridge Lane Acquisition	74,039
Interest Earned	162,193
Capital Expenditures for Current Year	(747,874)
Net Activity for the Year	(35,473)
Balance, End of Year	$5,750,449

Major repairs and replacement expenditures in the Public Housing portfolio are funded through the operating subsidy payment process and not the reserve fund. In 2005 major repairs and replacement expenditures were $1,020,255 which is 95.7% of budget.

Total expenditures for major repairs and replacement are summarized as follows:

Funded from the Capital Reserve Replacement Fund:	
Provincial Reform and Regional Housing Program	$ 747,874
Funded from the Operating Budget:	
Public Housing Program	1,020,255
Total Capital Expenditures	**$1,768,129**

5. FINANCIAL IMPLICATIONS

There are no financial implications for this report; however, the following are notable indicators of net financial positions as at December 31, 2005:

- Current Value Assessment of all properties in 2005 is estimated at $174,435,660 based on 2005 Municipal Property Assessment information.
- Provincial Reform mortgage value of properties is $82,775,178.
- Provincial Reform retained earnings is $3,090,931.
- Provincial Reform and Regional Housing Program Capital Replacement Reserve is $5,750,449.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

Housing York Inc. has continued to operate its programs in accordance with program requirements and funding formula expectations. From a financial perspective, 2005 was a successful year. Costs associated with a significant labour reclassification and 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.

The Senior Management Group has reviewed this report.

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May 25, 2006

Attachment 1: HYI 2005 Financial Statements
2: HYI Annual Information Return
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Version 4-2003-5-30