THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
June 9, 2010
Report of the
General Manager
and
Treasurer

2009 FINANCIAL STATEMENTS

1. RECOMMENDATIONS

It is recommended that:

1. The audited 2009 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 System Manager and Shareholder of the Corporation.

2. The 2009 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 System Manager and Shareholder of the Corporation.

2. PURPOSE

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

Various additional supplemental schedules are reviewed by the auditor to validate subsidy settlement for the various housing programs managed by HYI as well as other inter-company transactional activity. These supplementary schedules are provided to the Region but do not form part of the Board package due to their detailed nature.

The 2009 audit for HYI was completed during March and April by the audit firm of KPMG LLP.

Portfolio snap shot reveals three distinct funding formulas

The following table summarizes HYI's eligibility for subsidy funding.

Table 1
Summary of Housing York Inc.'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, HYI 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 HYI 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 HYI 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 $69,288 reported after Board approved internal allocations

Despite a difficult economy, HYI is reporting another financially successful year. A surplus of $119,288 is reported on the Statement of Revenue and Expenditures and Retained Earnings following the mandatory contribution to the capital reserve. Of this amount, internal Board approved allocations took place to establish a net operating surplus of $69,288.

Balance Sheet asset totals are essentially identical to 2008; slight variation in mix

As at December 31, 2009, HYI has total assets of $113,058,970 of which 88% was in property holdings, net of accumulated depreciation.

Overall, the change in assets is $331,686, or .3% lower than 2008. The annual amortization of buildings was essentially offset by the addition of Leeder Place family shelter, located in the Town of East Gwillimbury.

Table 2 summarizes the three main asset categories.

Table 2
Asset Summary

Balance Sheet – Assets Categories	2009	2008
Current Assets	$ 4,725,153	$ 2,491,229
Restricted Cash and Investments	8,562,243	10,822,437
Property Holdings	99,771,574	100,076,990
Total Assets	**$113,058,970**	**$113,390,656**

HYI current assets are higher than 2008 due to the timing of funding flows associated with the economic stimulus program. At year-end HYI 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 2010 once funds are released and the accounting recognition takes place. About 70% of the receivable was cleared by May 2010.

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

Little change in liability obligations

On December 31, 2009, HYI has total liabilities of $99,203,881. Due to a mortgage renewal pending at Heritage East in 2010, the mortgage at this site is reclassified as a current (short term) liability because it is fully payable within twelve months of the fiscal year ending. Once it is re-financed, it will be reclassified as a long term liability under the category of Mortgages Payable.

Table 3 summarizes the liability categories.

Table 3
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2009	2008
Accounts Payable and Accrued Liabilities	$ 1,939,879	$ 2,050,522
Deferred Revenue	462,090	530,969
Amounts Due to The Regional Municipality of York	3,664,249	3,321,797
Current Portion of Mortgage Payable	15,603,869	3,069,448
Current Liabilities	**21,670,087**	**8,972,736**
Loan Agreements	5,834,000	5,834,000
Mortgages Payable	71,669,794	87,303,663
Total Liabilities	**$99,203,881**	**$102,110,399**

The deferred revenue amount of $462,090 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 2009 is $3,664,249 broken down as follows:

Payroll, Regional Allocations, Energy Management Loan	$1,385,619
Subsidy Settlements	2,278,630
Payable to York Region December 31, 2009	**$3,664,249**

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.

Region's contribution for Leeder Place building increases HYI equity

Overall, HYI's equity is $2,574,832 higher than 2008 mostly due to the Region's contribution to the Leeder Place Family Shelter, partially offset by planned spending against the reserves.

Table 4 summarizes 2009 equity activity.

Table 4
Summary of Equity

Balance Sheet Equity	2009	2008
Reserve Fund for Capital Equipment Replacement	$ 4,706,347	$ 5,109,513
Reserve Fund for Energy Management Pilot Project	78,886	122,210
Reserve Fund for Energy Management Strategy	129,375	-
Reserve Fund for Emergency Power Project	539,541	487,829
Reserve Fund for Insurance Deductibles	201,257	187,708
Shareholder Contribution	6,557,461	3,554,879
Retained Earnings	1,642,222	1,818,118
Total Equity	**$13,855,089**	**$11,280,257**

Table 5 summarizes 2009 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, 2009	**$5,109,513**	**$122,210**	-	**$487,829**	**$187,708**
Transfers-In from operating	725,294	-	-	-	50,000
Transfers-In other sources	170,088	-	448,691	51,712	-
Expenditures in 2009	(1,298,547)	(43,324)	(316,319)	-	(36,451)
Balance - December 31, 2009	**$4,706,347**	**$78,886**	**$129,375**	**$539,541**	**$201,257**

The *Social Housing Reform Act, 2000* requires housing providers to invest their capital reserve in a pooled investment fund. HYI has invested $4,463,724 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 2009 repayment to Retained Earnings for the pilot retrofits completed in 2007. The balance remaining will be fully repaid to Retained Earnings in less than two years, concluding HYI's commitment to repay $500,000 start up funds on the energy management pilot project.

The energy management strategy reserve reflects activity for HYI'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, HYI has been able to utilize grants from the economic stimulus program as an alternative to borrowing for some of the planned retrofits. After two years, HYI has borrowed only $150,000 from the Region, having successfully obtained alternative funding for most of the expenditures incurred so far.

Reserves have been established for the additional funding agreements that arose during 2009. At year-end HYI is reporting zero balances in these reserves as funding was accrued at an amount equal to expenditures. Further activity is expected in 2010 as the Social Housing Repair and Retrofit Program continues.

Statement of Revenue and Expenditures and Retained Earnings shows 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 2009 approved budget is provided for reference. The details of this financial statement are discussed in following sections.

Rent and other operating revenue on target; actual subsidy requirements lower than budget estimates

Rental income and minor miscellaneous revenue streams were on budget. This is a positive outcome in light of economic uncertainty experienced for most of the year, particularly around rent-geared-to-income tenancies. Maintaining solid revenue performance is essential to working within the funding formula framework; HYI continues to monitor rent and investment income.

Table 6 provides a revenue summary for 2009.

Table 6
Summary of 2009 Revenues

Revenue Summary	2009 Budget	2009 Actual	$ Var.	% Var.
Rental Income	$13,131,882	$13,064,193	$(67,689)	(0.5)%
Non Rent Revenue	484,898	573,461	88,563	18.2%
Government Subsidies	8,911,284	8,068,744	(842,540)	(9.5)%
Provincial Reform Surplus	63,255	69,288	6,033	9.5%
Total Revenues	**$22,591,319**	**$21,775,686**	**$(815,633)**	**(3.6)%**

The subsidy budget is estimated and approved during the annual budget process. The Region releases the estimated funds to HYI 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 HYI is allowed more or less funding than what has been provided throughout the year. Due to lower spending in utilities and Public Housing Capital, HYI 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 continued pressure on building costs, offset by under spending in utility expenses and lower Public Housing Capital

Overall total operating expenses were $813,891 or 3.7% lower than budget as shown in Table 7.

Table 7
Summary of 2009 Expenses

Expenditure Summary	2009 Budget	2009 Actual	$ Var. F/(U)	% Var. F/(U)
Administration and Maintenance	$ 6,619,769	$ 6,788,415	$(168,646)	(2.5)%
Insurance	192,264	207,220	(14,956)	(7.8)%
Bad Debts	80,724	82,988	(2,264)	(2.8)%
Utilities	2,683,862	2,225,103	458,759	17.1%
Mortgage/Lease Payments	8,499,276	8,501,039	(1,763)	0.0%
Property Taxes	2,141,370	2,066,566	74,804	3.5%
Shelter Costs	-	143,349	(143,349)	-
Public Housing Capital	1,522,150	910,844	611,306	40.2%
Total Expenditures	**$21,739,415**	**$20,925,524**	$813,891	**3.7%**

The administration and maintenance category includes building maintenance expenses, Regional payroll costs, and administrative overheads. The budget pressures experienced in this category are $168,646 or 2.5%. They are largely attributable to maintenance costs. Overspending in this budget category has been a trend since 2006 and HYI continues to examine efficiency opportunities. Savings in other budget categories, where allowed under the funding formula, can be used to offset unfavourable variances.

Insurance costs exceeded budget by $14,956 or 7.8% 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.

The minor variations on mortgage and property taxes do not carry any financial impact on HYI’s year-end results. These costs are funded for actual dollars spent and variances in these categories become part of the subsidy reconciliation.

Public Housing capital costs were under budget by $611,306 or 40.2%. All planned jobs were completed; however, HYI was able to divert several of its budgeted jobs to the Social Housing Repair and Renovation Program to make use of provincial and federal grant funding. Unused Public Housing capital funds are returned to the Region in the subsidy reconciliation.

Operating surplus is allocated to various "bottom line" accounts

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

Table 8
Distribution of 2009 Surplus Operating Funds

Total Revenue	$ 21,775,686
Total Expenses	(20,925,524)
Excess Revenue over Expenditures	850,162
Mandatory Contribution to Capital Reserve Fund	(730,875)
Excess Revenue over Expenditures Available for Internal Use	**$ 119,288**
Non-Program Transactions – Building Depreciation (new)	(238,550)
Retained Earnings, January 1, 2009	1,818,118
Insurance Reserve (annual contribution)	50,000
Tenant Survey Project – wrap up costs	6,635
Retained Earnings, December 31, 2009	**$1,642,222**

In order to comply with *Generally Accepted Accounting Principles,* HYI is required to report depreciation expense on buildings that are not covered by the *Social Housing Reform Act, 2000*. This is experienced for the first time in 2009 whereby building depreciation, in the amount of $238,550, is reported on HYI's two latest buildings, 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, HYI maintains various schedules for the Service System Manager to reconcile Retained Earnings under *Generally Accepted Accounting Principles* and *Social Housing Reform Act, 2000*. Detailed information on HYI'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 HYI throughout the year. The amount of $2,965,281 at the end of 2009 reconciles to the cash account identified on the Balance Sheet and is viewed to be sufficient cash flow to maintain normal operations.

HYI redeemed approximately $1,500,000 operating investments when they matured in 2009, in anticipation of timing lags for the funding on economic stimulus projects. This money will be considered for reinvestment following completion of the additional programs.

Major repairs/replacement expenditures (Capital) augmented with new funding agreements

The capital program was intensified mid-year when additional funding was announced in the form of grants. HYI maximized the available funding and is continuing to do so in the second year of the stimulus program. Over $1,000,000 was spent under new agreements in 2009.

As noted in Table 4, the value of the capital reserve replacement fund is lower than 2008 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 where possible will extend the longevity of HYI'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	$1,298,547
Funded from the Operating Budget:	
Public Housing Program	910,844
Funded from Additional Agreements:	
Social Housing Repair and Retrofit Program and Additional Subsidy Agreement	1,039,732
2009 Major Repairs and Replacement Expenditures	**$3,249,123**

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, 2009:

- Income producing properties (Provincial Reform) is $87,303,662.
- Other property holdings (Tom Taylor Place, Leeder Place) is $12,467,912.
- HYI's equity value has increased to $13,855,089, including consolidated Retained Earnings of $1,642,222 and Capital Replacement Reserves of $4,706,347.

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 its programs in accordance with program requirements and funding formula expectations. More than $1,000,000 of major repairs and retrofits using economic stimulus funding was also 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.

Reviewed by:

Sylvia Patterson
Assistant General Manager

Recommended by:

Adelina Urbanski General Manager	Lloyd Russell Treasurer

May 20, 2010

Attachments - 2

KC/sv

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