

The Regional Municipality of York

Housing York Inc.
June 18, 2015

Report of the
General Manager
and
Chief Financial Officer

2014 Financial Statements

1. Recommendations

It is recommended that:

1. The Board approve the draft 2014 Financial Statements and explanatory notes for Housing York Inc. (see *Attachment 1*) and submission to York Region, in its role as Service Manager and Shareholder of the Corporation.
2. The Board approve the 2014 Annual Information Return for the Housing York Inc. Provincial Reform Program (see *Attachment 2*) and submission to York Region, in its role as Service Manager and Shareholder of the Corporation.
3. The Board approve the 2014 Annual Report for Housing York Inc. (see *Attachment 3*).

2. Purpose

This report presents the annual draft Financial Statements for Housing York Inc. (Housing York), along with the Annual Information Return, a housing program report mandated under the *Housing Services Act, 2011*, and the 2014 Annual Report, for the Board of Directors' approval.

3. Background

External annual audit and financial statements comply with Regional and legislative requirements

Housing York prepares audited financial statements that are consolidated in the Regional financial statements. The Housing York audit is performed concurrently with the Region's audit ensuring that related-party transactions, such as subsidy transfers and payroll costs, are fully examined at the corporate and shareholder level.

Annually, the Board approves Housing York financial statements, which are consolidated across all housing portfolios facilitating accurate year-over-year financial comparisons.

In addition to consolidated financial statements, the auditors review an Annual Information Return which is prepared for the Provincial Reform portfolio properties as required under the *Housing Services Act, 2011* (HSA). The Annual Information Return is a summary of the Provincial Reform portfolio financial, operating, and statistical information for the fiscal year. The Service Manager uses this information to verify subsidy entitlement, assess compliance with HSA, and create forecasting and budgeting.

The audited financial statements and audited Annual Information Return are presented to the Board in draft. Board approval is required prior to submission to the Region in its role as Service Manager and funder.

The external auditors will be present at the Board meeting to answer questions for Board members. There will be an opportunity, as Board governance best practice, to ask questions of the auditors without staff being present.

In previous fiscal years, Housing York published an annual report that highlighted accomplishments for the year and future strategic direction. This annual report did not require the Board's approval and it was presented as an attachment to the Regional Annual Report.

Starting in 2014, Housing York's Annual Report is produced and presented to the Board in draft, independently of the Regional Annual Report, and requires Board approval.

Housing York's portfolio operates under three distinct funding formulas

Each portfolio has different funding rules and eligibility for subsidy depending on which legislation governs the portfolio. Table 1 summarizes Housing York's eligibility for subsidy funding.

Table 1
Summary of Housing York's 2014 Portfolios and Subsidy Eligibility

Portfolio	No. of Buildings	Construction	No. of Units	Unit Mix	Subsidy Eligibility
Public Housing	17	1967 – 1979	872	Subsidy 100%	Operating, which includes Capital
Provincial Reform	12	1986 – 1994	1,038	Subsidy 71% Market 29%	Mortgage, Taxes, RGI Subsidy and Mandatory Contribution to Capital Reserve
Regional Housing	7	2004 – 2014	531	Subsidy 62% Market 38%	Construction capital contribution No operating subsidy Rent assistance
Total	36		2,441	Subsidy 80% Market 20%	

4. Analysis and Options

Housing York's financial statements follow the typical format used by non-profit organizations

The financial statements are comprised of a:

- Balance Sheet
- Statement of Revenue, Expenditures and Retained Earnings
- Statement of Cash Flows
- Supplementary notes and tables

The financial results are consolidated at the corporate level of Housing York as is customary for financial statement presentation.

Housing York generated a healthy operating surplus of \$457,214 in 2014 (see Table 2)

Table 2
Housing York's 2014 Operating Surplus

	2014 Budget	2014 Actual
Total Rental and Other Income	\$19,855,139	\$19,930,592
Government Subsidies	9,330,606	8,876,982
Total Revenues	\$29,185,745	\$28,807,574
Total Operating Expenses*	\$28,613,325	\$28,350,360
Excess Revenue over Expenditures	\$572,420	\$457,214

*Includes contributions to the capital reserve of \$1,782,441

The Statement of Revenue, Expenditures and Retained Earnings shows a surplus of \$457,214 following the mandatory contributions to capital reserve.

The surplus was lower than budgeted because the Region provided a lower subsidy than budgeted.

Housing York receives a subsidy from the Region to cover the gap between rental revenue and operating costs for certain properties. In 2014, revenue was slightly higher and operating expenses were lower than expected resulting in a lower regional subsidy. In addition, a subsidy is provided for the provincial reform portfolio to supplement the difference between rent-geared-to-income (RGI) rents and market rents. In 2014, the subsidy needs related to RGI rents were less than anticipated.

2014 rent revenue on target with budget

Maintaining solid rental revenue performance is essential to maintaining the company's strong financial health. Actual rental and other income in 2014 showed a small increase of \$75,453 compared to budget. Housing York remains focused on monitoring rental revenue and investment income.

Table 3 provides a revenue summary for 2014.

Table 3
Summary of 2014 Revenues

Revenue Summary	2014 Budget	2014 Actual	\$ Var. F/(U)	% Var. F/(U)
Rental & Other Income	\$19,855,139	\$19,930,592	\$75,453	0.4%
Government Subsidies	9,330,606	8,876,982	(453,624)	(4.9)%
Total Revenues	\$29,185,745	\$28,807,574	\$(378,171)	(1.3)%

Operating expenses reflect lower utility expenses

Overall, 2014 operating expenses were \$330,492 or 1.2% lower than budget as shown in Table 4.

Table 4
Summary of 2014 Expenses

Expenditure Summary	2014 Budget	2014 Actual	\$ Var. F/(U)	% Var. F/(U)
Mortgage/Lease Payments	\$9,453,596	\$9,437,377	\$16,219	0.2%
Administration and Maintenance	9,062,802	9,466,070	(403,268)	(4.4)%
Utilities	3,650,604	2,864,464	786,140	21.5%
Property Taxes	2,633,857	2,820,420	(186,563)	(7.1)%
Public Housing Capital	1,400,561	1,304,261	96,300	6.9%
Insurance	441,459	443,408	(1,949)	(0.4)%
Shelter Costs	85,670	105,120	(19,450)	(22.7)%
Bad Debts	96,013	52,950	43,063	44.9%
Total Expenditures	\$26,824,562	\$26,494,070	\$ 330,492	1.2%

The largest variance is in administration and maintenance costs. These costs are over budget due to very cold weather conditions with heavy precipitations that led to higher than forecasted snow removal costs in the first quarter of 2014.

Public Housing capital costs were under budget by \$96,300 or 6.9% as a result of pricing coming in below budget estimates for some jobs. Unused Public Housing capital funds are returned to the Region as part of the subsidy reconciliation.

Insurance premiums continue to increase, consistent with a five-year trend of sector-wide increases. In 2014, there was a small 0.4% increase in actual cost over budget.

In light of the 2013 provincial government announcement anticipating a hike in electricity rates, conservative measures were implemented in Housing York's 2014 budget to ensure adequate coverage. These measures along with sustained energy conservation efforts resulted in actual utility costs coming in under budget in 2014. The 2015 utilities budget has been adjusted to more accurately reflect cost projections.

Operating surplus creates growth in reserves and retained earnings

Housing York contributed \$1,782,441 from operations to capital reserves bringing the balance at the end of the year to \$4,952,608.

In 2014, \$457,214 was allocated to retained earnings resulting in a balance of \$3,052,836.

The consistent growth in these areas helps to position Housing York to address future financial needs.

Balance Sheet remains healthy with significant increases in assets and equity

As at December 31, 2014, Housing York has total assets of \$164,031,608 (cost basis) of which 92% (90% in 2013) are in property holdings, net of accumulated amortization.

Total net assets are 9% or \$13,490,495, higher than 2013. This increase is due to the addition of Lakeside Residences with an offset created by the payment of the current portion of the outstanding mortgages payable. Table 5 summarizes the three main asset categories.

Table 5
Asset Summary

Balance Sheet – Assets Categories	2014	2013
Current Assets	\$ 6,592,806	\$ 7,974,488
Restricted Cash and Investments	7,206,178	7,238,678
Property Holdings	150,232,624	135,327,947
Total Assets	\$164,031,608	\$150,541,113

The decrease in the current assets is due to the payment of the subsidy refund generated by the Housing York's subsidy reconciliation for 2012 and 2013 with the Service Manager.

Restricted cash and investments remained steady year-over-year and includes tenant rental deposits, capital reserve, internal reserves, and investments related to surplus operating funds.

Lower liability obligations than 2013

On December 31, 2014, Housing York had total liabilities of \$84,314,741 (down 7.2% from 2013) comprised of current liabilities of \$33,959,246 or 40% and building financing of \$50,355,495 or 60%.

Table 6 summarizes the liability categories.

Table 6
Liability Summary

Balance Sheet – Short and Long Term Liabilities	2014	2013
Accounts Payable and Accrued Liabilities	\$ 2,176,168	\$ 2,394,523
Deferred Revenue	988,890	923,732
Amounts Due to York Region	1,702,304	3,571,857
Current Portion of Mortgage Payable	29,091,884	4,501,130
Current Liabilities	\$33,959,246	\$11,391,242
Loan Agreements	\$ 5,834,000	\$ 5,834,000
Mortgages Payable	44,521,495	73,613,378
Building Financing	\$50,355,495	\$79,447,378
Total Liabilities	\$84,314,741	\$90,838,620

The largest liabilities shown on the Balance Sheet consist of mortgages payable and loan agreements. They represent various financing obligations on buildings within the Provincial Reform and Regional Housing portfolios.

The current portion of mortgage payable is higher than last year due to five mortgages coming up for renewal in 2015. These mortgages are reclassified from the building financing section and presented as current liabilities because they become fully payable within 12 months of the fiscal year ending.

Upon renewal in 2015 these five mortgages will be reclassified as long-term liabilities and only the portion payable within the first 12 months after the renewal will be presented as current liabilities. This reclassification between current and long-term liability is done in accordance with generally accepted accounting principles.

The amount owing to the Region consists of various payroll, administrative, and subsidy settlement charges. The 2014 amount is lower mainly due to the payment of the subsidy refund for 2012 and 2013 that was part of 2013 balance.

Lakeside Residences addition has positive impact on Housing York's equity

Housing York has a healthy equity balance. The debt free transfer of the newly built Lakeside Residences building from the Region to Housing York brought a \$19,405,805 shareholder infusion in equity raising the Shareholder Contribution balance to \$71,231,606 at the end of 2014. This amount includes the cost of the land, building, and furniture and fixtures.

Table 7 summarizes the equity categories.

Table 7
Summary of Equity

Balance Sheet Equity	2014	2013
Reserve Fund for Capital Equipment Replacement	\$ 4,952,608	\$ 4,772,990
Reserve for Operating Contingency	23,700	-
Reserve Fund for Emergency Power Project	276,117	317,863
Reserve Fund for Insurance Deductibles	180,000	180,000
Reserve Fund for Strategic Projects	-	10,217
Shareholder Contribution	71,231,606	51,825,801
Retained Earnings	3,052,836	2,595,622
Total Equity	\$79,716,867	\$59,702,493

Statement of Cash Flows validates reported Balance Sheet results

This statement monitors the movement of funds in and out of Housing York throughout the year. The amount of \$5,671,563 at the end of 2014 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.

Housing York is committed to maintaining quality housing asset pool

Over 60 capital projects were completed during the fiscal year representing a \$3.19 million dollar investment in capital repairs/replacement. This is reflective of Housing York's commitment to manage its properties effectively according to the *Housing York Strategic Plan 2012 – 2016*. Capital reserves increased from \$4,772,190 at the beginning of the year to \$4,952,608 at the end of the year, as noted in Table 7.

Highlights of the 2014 Annual Report

Housing York had a very busy and productive 2014. Key accomplishments highlighted in the annual report include:

- Opened Lakeside Residences, the newest Housing York community in the Town of Georgina.
- Implemented a smoke-free policy in 2014, which aims to create healthier communities for all.
- Conducted analysis on long-term asset management needs and implemented a new asset planning software to help analyze and plan for asset optimization.
- Rolled out new emergency preparedness procedures at all buildings to ensure staff are prepared to handle emergencies.
- Enhance two-way communication with tenants, most notably a successful tenant engagement process.

Link to key Council-approved plans

Housing York's 2014 Financial Statements supports and complements the Region's housing goals as outlined in corporate policies such as Vision 2051, the Sustainability Strategy, the Region's 2011-2015 Strategic Plan and the Regional Official Plan.

5. Financial Implications

Housing York ended the year in a positive position and the following are indicators of its net financial position as at December 31, 2014:

- Property holdings increased from \$135 million to \$150 million with the transfer of Lakeside Residences to the portfolio.
- Retained Earnings increased from \$2,595,622 to \$3,052,836 due to careful financial planning. The 17.6% increase in retained earnings will better position Housing York to address future financial needs.

- Capital reserve balance increased from \$4,772,990 to \$4,952,608 mainly as a result of operating surpluses allocation.

6. Local Municipal Impact

Housing York provides safe, well-maintained affordable housing throughout local municipalities in York Region.

7. Conclusion

Housing York continues to operate in accordance with program requirements and funding formula expectations. The addition of 97 new units to the housing portfolio at Lakeside Residences marks 2014 as another year of growth. The \$3.19 million in major repairs and retrofits completed during the year is reflective of Housing York's commitment to manage its properties effectively and maintain a quality asset pool.

For more information on this report, please contact Carlene Jackson, Director, Program Finance and Chief Financial Officer, Housing York Inc. at ext. 76064.

The Senior Management Group has reviewed this report.

Recommended by:

Rick Farrell
General Manager, Housing York Inc.

Carlene Jackson
Director, Program Finance and Chief
Financial Officer, Housing York Inc.

Approved for Submission:

Adelina Urbanski
President, Housing York Inc.

May 22, 2015

Attachments (3)

#6054686

Accessible formats or communication supports are available upon request