Financial Guide

for York Region Housing Providers

York Region

Table of Contents

1 Introduction

Managing a successful non-profit or co-operative housing corporation requires knowledge in many areas including finance, property management, asset management, resident relations and strategic governance. Recognizing that financial health is the back bone to a strong organization, we have created this Financial Guide. This Guide was designed to help you understand the financial mechanics of your corporation and support you in planning for the long-term sustainability of your portfolio.

This Guide breaks down financial management into sections and provides you with tools to monitor your financial performance and review and approve the year-end financial statements.

A few highlights you'll find in this Guide include:

- An explanation of the budget and the capital plan
- Focus on the two most important financial statements:
  1. the statement of financial position (also known as the balance sheet)
  2. the statement of operations (also known as the income statement)
- York Region's subsidy and loan programs
- explanation of how operating subsidies are calculated and what happens during the Region's year-end settlement process.

The Guide concludes with a look at the capital reserve (replacement) fund, some tips for dealing with surpluses and deficits and some financial best practices for the Board to consider. A glossary has also been included at the back of the guide as a quick reference tool for some important terms (underlined in each section) used in the Guide and by housing providers.

Although the Guide includes several topics that are directly related to housing providers who operate under the *Housing Services Act* (HSA), the financial statements, strategies and terms discussed throughout the Guide apply to all housing providers.

For the purposes of this Guide:

- "**rent**" includes "**housing charge**"
- "**resident**" includes "**a co-op member**" and a "**non-profit tenant**"
- **Rent-Geared-to-Income (RGI)** includes "**rent subsidy**"

2 The Board of Directors - Duties and responsibilities

The Board

The Board's main responsibility is to ensure the organization's resources are properly managed and the housing provider fulfils its responsibilities according to the *Housing Services Act* (HSA) and its operating agreement with the Region. In carrying out these duties, the Board is ultimately accountable to the housing provider's stakeholders including its members, residents and the Region in its role as service manager.

The main financial duties and responsibilities of the Board include:

- Upholding the objectives and purpose for which the housing provider was created by providing affordable housing to its community
- Assigning management tasks to its staff or the property management company through job descriptions and/or contracts
- Ensuring there are internal controls in place to protect the assets of the corporation from theft or fraud
- Approving the annual budget
- Monitoring the housing provider's financial performance compared to the budget
- Ensuring there are enough funds available before authorizing expenses
- Ensuring short- and long-term capital plans are developed and implemented
- Hiring an auditor to provide an auditor's report on the corporation's financial statements and an accountant's report on *Applying Specified Auditing Procedures in Respect of the Annual Information Return*
- Overseeing the preparation of year-end financial statements with management, reviewing them with the auditors and approving them when complete
- Resolving any serious issues identified by the auditors
- Approving the Annual Information Return (AIR) and ensuring the financial information contained in the AIR matches the financial statements

- Providing any information requested by the Region in connection with the review of the AIR
- Submitting the AIR (signed by two members of the Board) and the audited financial statements to the Region within five months of the corporation's year-end
- Ensuring the Board meets at least four times a year (meeting more frequently is a best practice)
- Ensuring each individual member of the Board fulfills their responsibilities and exercises the expected amount of skill and care in doing so

The signing officers

The signing officers are named (by their position) in the housing provider's bylaws. They have the authority to sign legal documents and cheques on behalf of the organization. They are also responsible for making sure all expenses are properly authorized and documented and that goods or services are received before invoices are paid.

The Treasurer

The Treasurer usually works more closely with the property manager (management) on finance-related matters compared to other members of the Board. The Treasurer is responsible for ensuring important financial activities take place as required (for example, the budget and financial statements are created and reviewed), the annual audit is scheduled and audited fiancial statements are presented and approved by the Board or for Co-operatives, presented to and approved by the membership, at an Annual General meeting. The Treasurer is accountable for ensuring that all financial records are up to date and all transactions have been approved and recorded. This includes reviewing the monthly bank statements and bank reconciliations for operating and capital accounts to confirm all transactions have been accurately reflected in the financial statements. The Treasurer's checklist will enhance internal controls by confirming essential financial activities have been completed.

The Treasurer should also be one of the signing officers. The Treasurer's direct involvement in operations depends on the housing provider and its size.

Other responsibilities of the Treasurer include:

- Making recommendations on the housing provider's financial policies
- Chairing the audit or finance committee (if there is one)
- Ensuring internal controls are created and being used to protect the housing provider's assets
- Ensuring payroll deduction payments have been made to the Canada Revenue Agency each month
- Ensuring the required "conflict of interest" declarations have been received from major suppliers of goods and services, as well as the housing provider's directors and officers
- Making a recommendation to the Board on the appointment of the auditor for the upcoming fiscal year, in consultation with management
- Working with management to create the annual budget that will be presented to the Board
- Ensuring all required financial reporting to the Region is completed and submitted on time

Management

The housing provider's management and staff are responsible for the daily, weekly and monthly operations and financial activities. Management's duties should be listed in their job descriptions and should include:

- Creating the annual budget for presentation to the Board for approval
- Preparing financial statements and the property management report/update for presentation to the Board.
- Recommending market rent levels each year as part of the budget
- Submitting the Board-approved budget, subsidy estimate template, or other required budget estimates to the Region
- Preparing capital plans and reviewing them with the Board (the Region can support this process)
- Ensuring all financial transactions are recorded regularly (at least monthly) in the housing provider's accounting system
- Ensuring bank reconciliations are done monthly
- Ensuring audit trails for financial transactions are complete
- Making sure bills are paid when due
- Managing rent collection using the housing provider's approved collection policies and procedures
- Monitoring the accuracy and timeliness of subsidy payments from the Region
- Monitoring cash flow to make sure funds are available when expenses need to be paid
- Preparing a monthly report on variances between actual amounts and budget amounts for the Board, including arrears, vacancy loss, and payment of money owing to the Canada Revenue Agency and the Workers Safety and Insurance Board (WSIB)
- Handling payments for larger expense items in accordance with approved procedures
- Collecting annual income verification for rent-geared-to-income (RGI) households and recalculating RGI as necessary
- Issuing rent increase/decrease notices
- Making recommendations to the Board for changes in financial and operating policies

3 Overview of the *Housing Services Act* (HSA)

In addition to the general duties and responsibilities outlined in the previous section, all housing providers who operate under the *Housing Services Act* (HSA) must follow the specific regulations and requirements of the HSA. Some of these regulations apply to the Board and its members.

What is the HSA?

The HSA replaced the *Social Housing Reform Act* (SHRA). The SHRA shifted the responsibility for the funding and administration of most social housing from the Ontario Provincial Government to the municipal governments (or in the case of York Region, regional governments) as service managers. The service managers can create "local" rules and programs, but must maintain legislated program requirements.

Responsibilities of the Board under the HSA

Under the HSA the Board is responsible for providing necessary guidance and support to help the housing provider successfully manage its finances and operations. The HSA also specifies that York Region, as service manager can implement its own rules for Board operation, such as:

- Managing conflict of interest for directors, employees and agents
- The minimum number of Board of Directors' meetings to be held during a fiscal year
- Procurement and contracts for property management services
- Any leases or occupancy agreements the housing provider may enter into
- The creation and maintenance of multi-year financial plans
- The development of a plan for the training of staff and volunteers who work at the housing provider's facilities
- The creation of a succession plan for the Board of Directors

If you are a housing provider with an operating agreement or contribution agreement, you must follow the specific terms and requirements of those agreements.

If you have any questions about these agreements, please contact your Program Co-ordinator.

General HSA regulations for operations

The HSA has general operational regulations that must be followed by housing providers. The Board is responsible for ensuring that housing provider's management is following these regulations, including:

- Maintaining confidentiality standards to protect the personal information of applicants, residents, members of the Board and staff that is collected by the housing provider
- Creating a guest policy which defines a housing provider's definition of guest, how long they can stay before they must sign the lease or occupancy agreement and if their income should be included in the rent calculation
- Establishing an internal transfer policy to organize and track internal moves while ensuring the needs of existing residents are being met
- Using the required Government of Ontario's mortgage renewal system at renewal time
- Maintaining transparency to the public and residents regarding the resident application process, the size and type of units available and housing provider policies
- Developing policies, procedures and a wait list for market rent residents
- Filling RGI units according to the Region's established process using the Region's subsidized housing wait list
- Working with the Region to ensure RGI residents are not "overhoused" if their circumstances change
- Ensuring all housing provider records and those of its applicants are saved for seven years. Records of former residents must be saved for at least five years after they move out
- Ensuring all RGI residents have a lease or occupancy agreement. Any resident with income included in the RGI rent calculation for that unit (and is at least 16 years of age) should sign the lease or occupancy agreement

HSA reporting requirements

In addition to the rules and regulations described above, the HSA also outlines several reporting requirements for housing providers. Board members should be familiar with these requirements as part of their reporting responsibilities for the housing provider. These requirements include:

- A subsidy request form the Region can use to estimate operating and rent subsidies for the next fiscal year. Although the HSA does not require the housing provider to submit an annual budget to the Region, it is considered best practice for an annual budget to be prepared and approved by the Board
- The Annual Information Return (AIR) which is completed by management, reviewed by the Board and the auditors and signed by the President of the Board and the Treasurer. The AIR must be submitted to the Region, together with the year-end audited financial statements, within five months of the housing provider's fiscal year-end
- The board must ensure that all sections of the AIR are completed accurately and that the information matches the audited financial statements. The Board must also ensure the statistical information requested on pages C1 and C2 of the AIR is accurate as the Region reports this information to the Provincial government

4 The budget and the capital plan

In addition to preparing year-end financial statements, part of the Board's financial responsibilities includes monitoring the housing provider's financial performance throughout the year. This includes reviewing the budget and comparing it to actual results.

The annual budget (the budget)

The housing provider's annual budget is a tool used by management and the Board to forecast the housing provider's financial requirements for the fiscal year. A fiscal year is the 12-month period used to prepare a housing provider's financial statements and may not be the same as a calendar year. The budget contains management's estimates of the amount of money required for each of the major expense accounts for the year and the amount of money (revenue) that will be available to the housing provider to pay for these expenses. The budgeting process is also used by management to calculate the rent revenue to be collected each month and for the year in total. Rent revenue is based on rents set by the Board that can be charged by the housing provider, and depends on unit size, type (apartment, townhouse, one or two bedroom) and whether the resident pays market rent or a subsidized rent-geared-to-income (RGI). In addition to rent paid by residents (market and RGI) a subsidy for RGI residents is paid to the housing provider by the Region.

Other sources of revenue (non-rental revenue) and expenses for the year are estimated based on such things as:

- Amounts from previous years
- Regional estimates (indexed benchmarks)
- Current information and assumptions about the future for things like vacancies
- The possibility of bad debts
- The need for minor and major repairs and upgrades to rental units, buildings and equipment

The detailed information and estimates in the budget make it a valuable performance measurement tool for the Board and management. Monitoring financial performance includes comparing expected and actual results throughout the year – a duty of management and the Board. Comparing actual numbers with a budget is best practice because it allows the Board and management to quickly and easily identify problem areas and take early steps to avoid potential issues. This may include ensuring the housing provider has enough cash in the bank to pay bills and avoid cash shortages or "insufficient fund" charges by a bank.

Preparing the annual budget

The annual budget is a powerful and valuable tool that management and the Board can use to evaluate the financial performance of a housing provider. To ensure the budget can be easily compared to actual results, it should include the same accounts that appear on the financial statements prepared at year-end. Another factor to keep in mind during the budgeting process is the accuracy of the numbers used to create the budget. The figures used in the budget are based on management's estimates. Even if the Board and management are using the most current information available, the budget numbers may require adjustments. The Board and management should meet regularly (at least every quarter) to review budget and actual results to determine if any budget updates are required or if corrective actions are necessary.

To ensure budget numbers can be compared to actual results, it is best practice to use the same accounts that are in the year-end financial statements when creating the budget. It is also a good idea to review actual performance compared to the budget in a "budget to actual" report. This report lists the actual results by account in one column and the budget figures for the same account in a second column. Another best practice is to show the difference between the two accounts in a third column – this is called the "variance" and it shows the difference (good or bad) between the actual results for an account and what management had estimated in the budget. Arranging the data in this way allows management and the Board to quickly and easily compare budget and actual figures and identify potential issues. The following page is a sample budget to actual report.

The budget to actual report should include a year-to-date comparison as well as a year-end comparison between forecast and budget. The year-end forecast is based on management estimates of where revenues and expenses will be at year-end for each account on the financial statements. The variance between the forecast and the annual budget is included in the report. By reviewing the variances management and the board can see where they are heading in terms of deficit or surplus for the year and allow time to plan changes to ensure they are as close to the budget as possible by year-end.

Statement of Operations (Budget to Actual) for the Month Ended September 30, 2016

	YTD Actual	YTD Budget	$ Variance	Year End Forecast	Annual Budget	$ Variance
REVENUE						
Housing revenue:						
Housing Charges	477,285	477,285	-	520,300	520,675	(375)
Subsidy	26,235	26,235	-	28,620	28,620	-
Less: vacancy	(968)	(4,125)	3,157	(4,000)	(4,500)	500
Other Revenue:						
Laundry income	1,485	1,375	110	1,600	1,500	100
Parking income	5,000	5,133	(133)	5,700	5,600	100
Investment income	1,008	917	91	1,100	1,000	100
TOTAL REVENUE	**510,045**	**506,820**	**3,225**	**553,320**	**552,895**	**425**
EXPENSES						
General Repairs & Maintenance						
Cleaning	4,193	3,942	251	4,500	4,300	200
Electrical	-	458	(458)	500	500	-
Garbage Disposal	1,021	1,054	(33)	1,200	1,150	50
Heating & Air Conditioning	2,840	3,438	(598)	6,000	3,750	2,250
Landscaping & Snow	2,436	2,814	(378)	3,200	3,070	130
Painting	5,210	917	4,293	6,000	1,000	5,000
Plumbing	317	1,375	(1,058)	1,500	1,500	-
Miscellaneous Exterior	3,938	1,375	2,563	5,000	1,500	3,500
Total General Repairs	19,955	15,373	4,582	27,900	16,770	11,130
Utility Expense						
Gas	6,800	3,667	3,133	8,000	4,000	4,000
Electricity	2,364	2,292	72	2,500	2,500	-
Water	9,648	11,367	(1,719)	12,400	12,400	-
Total Utility Expense	18,812	17,326	1,486	22,900	18,900	4,000
Administrative Expense						
Accounting & Audit Fees	1,345	2,998	(1,653)	3,300	3,270	30
Bank Charges	125	147	(22)	160	160	-
Legal Fees	-	4,583	(4,583)	500	5,000	(4,500)
Bad Debt	-	458	(458)	-	500	(500)
Office Supplies	1,230	2,750	(1,520)	1,500	3,000	(1,500)
Insurance	10,250	10,267	(17)	11,000	11,200	(200)
Mortgage Expense	326,393	326,393	0	356,065	356,065	-
Management Services	32,083	32,083	0	35,000	35,000	-
Total Administrative Expense	371,426	379,679	(8,253)	407,525	414,195	(6,670)
Taxes						
Property Taxes	18,996	19,525	(529)	21,300	21,300	-
Total Taxes	18,996	19,525	(529)	21,300	21,300	-
Capital Reserve						
Reserve Allocation	74,919	74,919	-	81,730	81,730	-
Total Taxes	74,919	74,919	-	81,730	81,730	-
TOTAL OPERATING EXPENSES	**504,108**	**506,822**	**2,714**	**561,355**	**552,895**	**(8,460)**
TOTAL OPERATING INCOME/(LOSS)	**5,937**	**(2)**	**5,939**	**(8,035)**	**-**	**(8,035)**

Revenues

In order to make it easier to create year-end financial statements, the accounts used to create the budget should be divided into shelter revenue and non-shelter revenue.

Shelter revenue: Includes actual rent received from RGI and market residents as well as government subsidies received from the Region (and explained in detail in the Region's annual subsidy letter). Another source of shelter revenue is non-rental revenue, which includes income from investments, laundry facilities, parking and other sources of income that are part of the housing provider's housing activities.

Non-shelter revenue: Includes all revenue that a housing provider earns from non-housing related activities such as rental income from businesses that operate on the housing provider's property such as clinics, day care facilities or retail businesses. All types of non-shelter revenue should be shown separately from shelter revenue in the budget and on financial statements.

Expenses

The same logic of separating revenues into shelter and non-shelter based on their sources should be used when including expense accounts in a budget. Shelter expenses are necessary for the organization to provide housing to residents and include all building operating expenses, ground and equipment expenses as well as expenses for repairs, maintenance and improvements. Non-shelter expenses are those related to the operations of the housing provider's sources of non-shelter-revenue such as repairs and maintenance of leased retail space.

Separating shelter and non-shelter revenue and expenses in this way allows the Board and management to see the financial performance of their housing activities and ensure these operations generate the income necessary to pay the expenses required to properly maintain the housing provider's grounds and facilities. It also makes it easier for the Board and management to find savings by reducing expenses where possible and adjust future budget amounts where necessary. This division of revenues and expenses also helps the Region determine subsidy funds that are necessary for the housing provider to continue to provide affordable housing for the community.

Mid-year budget review

It is impossible to predict every issue that might affect an organization during the year. It is important to act quickly if there is a significant difference (variance) between actual and budgeted income or expenses in order to prevent operating deficits, operational problems, and/or difficulties paying bills. A mid-year budget review should be completed to adjust spending for the rest of the year where necessary in order to match the budget and provide a more accurate picture of the housing provider's financial health.

When the Board works with management to review actual results against a budget, it can do a better job in helping the organization use its cash and other assets wisely. This review will also identify necessary adjustments to the budget. Here are some questions that may assist Board members with budget reviews:

- Are variances related to revenues, expenditures or both?
- What are the explanations for the largest variances ("over" and "under")?
- Are variances the result of issues the organization can't control (such as an unanticipated increase in utility usage or utility rates)?
- Are budget estimates to year-end still valid? What assumptions are estimates based on? Are these assumptions still accurate?
- Is there a need for immediate action to deal with the variances and/or budgeted numbers to year-end?

Ensuring that spending is according to budget

Small variances show the budget was well prepared and realistic and that there are good spending controls that protect against overspending. The Board and management should also watch for under-spending on essential items like maintenance that can affect the long-term health of the housing provider's buildings and facilities. Small variances are also an indication that the Board and management are respecting the planning priorities that were agreed upon when the budget was created.

Capital plans and their importance

Creating a capital plan is one of the duties of the housing provider's Board of Directors. The Region is available to assist with capital planning and has supported each housing provider in developing a 10-year capital plan. The Region has also provided building condition audits and Asset Planner software to support the capital planning process. The capital plan establishes priorities for the activities of the housing provider in maintaining and repairing its buildings, facilities and equipment. A detailed capital plan should assign specific dollar estimates to these priorities. Preparing the capital plan requires an in depth review of the housing provider's offering relative to the needs of the community, the current level of resident satisfaction, the changing needs of the resident population and the funds needed to maintain the physical integrity and life expectancy of the buildings and their systems.

Before preparing an annual budget, management should perform an assessment of the housing provider's building(s) and prepare a list of maintenance and replacement activities (ranked by priority) that should take place in the upcoming fiscal year. The process of setting priorities for those activities should include an assessment of the housing provider's operating environment, which includes:

- The state of the rental market and if the housing provider is having trouble filling units
- The state of the economy
- The amount of funding or loan programs available from the service manager (the Region)
- Current resident satisfaction

These factors will help the Board and management determine how much available cash should be budgeted for immediate repairs to attract residents and fill vacant units, and how much to allocate to essential maintenance and repairs that make up all long-term capital plans. For more information about how the Region can support capital planning, please contact your Program Co-ordinator.

5 The financial statements

The Board of Directors' primary responsibility is to ensure the housing provider can fulfil its mission. To do so, the Board needs tools to make informed decisions to protect the corporation's long-term health. To effectively participate in the planning and decision making process for the housing provider, all Board members should be familiar with financial statements.

Management, the Board and the auditor

Financial statements are the responsibility of a housing provider's management and Board of Directors. While management is responsible for preparing and presenting financial statements, the Board is responsible for overseeing management's statement preparation and ensuring the statements represent a true financial picture of the corporation. The auditor is an independent professional who ensures that the financial position and results are presented fairly according to accounting rules called Generally Accepted Accounting Principles (GAAP).

Internal versus external reporting

There are two main types of financial reporting - internal and external. Internal reporting involves gathering financial and operational information into reports used by the housing provider's management and staff to monitor and improve financial performance. A good example is when a manager compares the electricity expense account balance with the amount listed in the budget to determine if the expense is higher or lower than estimated. If the amount is higher, it could be an indication of a physical problem within the building(s) that should be followed up by the management team. It could also be a sign that electricity rates have risen due to unexpected economic conditions (which are outside of the control of management) and the amounts budgeted for electricity expense for the rest of the year should be reviewed and revised. Internal reports are intended to be used by management and the Board.

External reports are shared with people outside of the housing provider. These people are usually referred to as stakeholders. Stakeholders are groups or individuals who have an interest in seeing the housing provider succeed in its mission and purpose. Often, stakeholders have a financial interest. They want to ensure the housing provider is financially healthy and can provide affordable housing to the community it serves. The housing provider's stakeholders include its residents, the local community in which it operates, the Region and other levels of government. It is important that the Board and the housing provider's management team are aware of their responsibility to these stakeholders. Part of this responsibility is to produce audited year-end financial statements and an Annual Information Return (AIR) for stakeholder review. These external statements are meant to be shared and are created based on accounts used in the budget and reviewed by management throughout the fiscal year.

Accrual accounting

A housing provider's financial statements are based on accrual accounting. Accrual accounting means that revenues and expenses are recorded in the housing provider's accounts in the month that they happen and not when they are paid. For example, when a housing provider receives an invoice, it is recorded in the month in which it is received (this creates an account payable) not when it is paid. In the same way, all revenue is recorded when it is earned and not when the cash is received (this creates an account receivable). By using this method, the housing provider knows the total expenses paid as well as the total they will have to pay in the future (accounts payable), and how much cash they have received as well as cash they are owed (accounts receivable) at any given time.

A good example of accrual accounting is the treatment of the housing provider's monthly rent payments from residents. A resident's rent is due on the first of the month. This creates an accounts receivable for the provider in accrual accounting terms. By recording the accounts receivable amount, the provider knows how much rent it is owed by its residents. As the provider collects payment (or cashes the cheques) from residents, the amount in the accounts receivable account goes down (because if payment is received the amount is no longer owed) and the amount of cash in the bank goes up. By monitoring the accounts receivable account, management can identify residents that owe money and how long it has been owed. Using this procedure will prevent older accounts receivable from becoming uncollectible and eventually written off as bad debts (discussed later on in the guide). In short, the accrual accounting method gives management accurate monthly totals for the expenses and revenues that occurred. These amounts can then be compared to the account's budgeted amounts to identify differences and potential issues.

Key financial statements

The Board will encounter two key financial statements most frequently: The statement of financial position (balance sheet) and the statement of operations (income statement). Board members should be familiar with these statements and their accounts to effectively review them with management.

These statements (along with notes to the financial statements) are required to successfully complete the AIR. They are created at year-end, reviewed by the Board with management and then given to the auditor for review. Once audited, the year-end financial statements are submitted, along with the AIR, to the Region for review and to complete the subsidy settlement process.

a. Statement of financial position (balance sheet)

The statement of financial position is also known as the balance sheet. The key to understanding this statement is to remember the total assets listed on the statement should equal (or "balance" to) the total liabilities plus net assets.

Total Assets = Total liabilities + net assets

The assets and liabilities on the statement of financial position are listed in order of how "liquid" or close to being cash each one is. For example, current assets and current liabilities are listed first because they are items that are closest to being cash (assets) or needing to be paid with cash (liabilities) within the coming fiscal year. Long-term assets and long-term liabilities are listed below current assets and current liabilities. These long-term items are not expected to become cash or require payment (or be otherwise used) within the next year.

Current assets

Current assets are "liquid" assets that are cash or can be turned into cash within the fiscal year or will be used up over one year or less. The following is a list of the most common current assets on a housing provider's balance sheet:

- **Cash:** Includes money in the bank or in short-term investments, that is available to cover current operating costs
- **Accounts receivable:** There are usually separate lines for money due from residents and funds due from the Region
- **Allowance for bad debt:** Any part of the accounts receivable that you are having trouble collecting (this should be kept as low as possible)
- **HST rebate receivable:** The combined amounts of the Federal (GST) and Ontario (PST) portions of the HST that can be recovered by a housing provider with a "not-for-profit organization" status
- **Prepaid expense:** Expenses that have been paid ahead of time, usually in a lump sum, that have not been used and charged to an expense account. This may include a 12-month insurance policy that is paid in January. Each month, one month's worth of expense is moved from prepaid to insurance expense. Until it becomes an expense, the prepaid part of the charge is a current asset

Capital assets (property and equipment)

Capital assets are "physical" assets that have an expected useful lifespan, like land and buildings. These are sometimes listed as Property and Equipment in financial statements. There are different kinds of capital assets that make up a housing provider's property and equipment including major building components, systems and equipment with typically long lifespans. Capital assets are generally considered to be building components paid for by the mortgage. Major repairs or renovations, whose benefits extend beyond the fiscal period and cannot be paid for out of annual budgets can also be considered capital assets. These are addressed through the additional subsidy and loan programs. Capital assets have an expected useful lifespan that will vary according to quality and project conditions.

The value of buildings and equipment is gradually reduced or "amortized" to reflect wear and tear. Property and equipment are shown on the statement of financial position at their original cost less the total amount of amortization that has built up over the years. This is called net book value. This calculation is included in a note to the audited financial statements. For housing providers, the net book value of the property and equipment is equal to the unpaid amount of the mortgage listed in the liabilities section of the statement of financial position. The amortization expense for the year (listed on the statement of operations) is the amount of "principal" or non-interest portion of the mortgage payments for the year.

Restricted assets

Restricted assets are cash and investments that can only be used for certain purposes. A good example is the housing provider's Capital Reserve Fund. These funds can only be used for capital expenses which include capital replacements (buildings or equipment) or major repairs. These funds are not intended to be used for daily or operational expenses, must be listed separately on the statement of financial position, and must be invested according to the Region's requirements. The balance and yearly activities of the fund must also be detailed in a note to the financial statements.

Liabilities and net assets

Current liabilities

Current liabilities are amounts the housing provider has to pay to others within one year. For example, an electricity invoice that must be paid within 30 days is a current liability. The main current liability accounts that you might find on your statement of financial position include:

- **Accounts payable:** Invoices that have not yet been paid for goods and services that have already been provided and recorded in the housing provider's accounts
- **Accrued liabilities:** Expenses that have not yet been paid or entered into the housing provider's accounts payable account because the supplier's invoices have not yet been received. In order for management to know the total expenses for the period, these unbilled expenses must be entered as accrued liabilities. Examples include accrued wages payable, property tax payable and accrued utilities payable
- **Accrued mortgage payment:** A form of accounts payable, the accrued mortgage payment is due on the first day of the next month, every month
- **Resident deposits:** Deposits paid by residents such as last month's rent or security deposits. These must be refunded, less any money owing to the housing provider and are considered liabilities on the statement of financial position
- **Payable to York Region:** Unused subsidy payments listed on the year-end settlement letter that have to be returned to the Region for redistribution to other RGI residents

Long-term liabilities

Long-term liabilities are the housing provider's loans that must be repaid over a period of more than one year. For most housing providers this includes the mortgage and some forms of financing from the Region for major repairs such as a secured loan or an additional subsidy loan. Key liability accounts that you might find on your statement of financial position include:

- **Mortgage:** The total unpaid balance of the housing provider's mortgage **less** the amount of the **accrued mortgage payment** listed in the **current liabilities** section. Details about the mortgage such as the current balance and the amount paid off (or amortized) are included in the notes to the audited financial statements
- **Additional subsidy advance from York Region:** If the housing provider has an additional subsidy loan (refer to the York Region Programs section) from the Region, the unpaid amount of the loan is listed here. The payment details (or amortization) of the loan are included as a separate note to the financial statements
- **Secured loan from York Region:** If the housing provider has a secured loan (refer to the York Region Programs section) from the Region, the unpaid amount of the loan is listed here. The payment details (or amortization) of the loan are included as a separate note in the financial statements

Net assets or fund balances

Organizations usually have more assets than liabilities. The difference between the two is the net assets (Net assets = assets – liabilities). Net assets are listed below the liabilities on the statement of financial position so when they are added to the liabilities the total matches the total shown for the assets section. The net assets section is usually made up of separate totals for "Restricted Assets" which includes the Capital Reserve Fund and "Unrestricted Assets" which includes the housing provider's Accumulated Surplus.

Look for these key fund balances in the net asset section of your statement of financial position:

- **Capital Reserve Fund:** This fund is "restricted"; its funds can only be used for a specific purpose, in this case, for major repairs or improvements to the housing provider's buildings or infrastructure (capital repairs or improvements) that have been approved by the Region. To ensure that there are always funds available for these types of repairs or improvements, the housing provider is required to transfer an amount calculated by the Region (and listed in the yearly subsidy estimate documents) to the fund every year
- **Accumulated surplus or deficit:** The total portion of the annual operating surpluses (or deficits) that the housing provider has been entitled to keep over time. Unlike the Capital Reserve Fund, the annual amount the housing provider can contribute (as a percentage of the annual operating surplus) to this account is not a fixed amount determined by the Region, but depends on the amount of the annual operating surplus (if there is one) and whether the housing provider has entered into a surplus sharing agreement or has an outstanding additional subsidy loan with the Region (refer to the York Region Programs section). Funds are not restricted

b. Statement of operations (income statement)

The statement of operations lists the housing provider's revenues and expenses over the fiscal year. A fiscal year refers to the 12-month period the housing provider uses for its budget and to account for its revenues and expenses. This period may not be the same as a calendar year. This statement is similar to a household budget or chequing account. It shows how much money has come in over a period of time (revenue), how much money has gone out over the same period (expenses) and what is left over at the end (net operating surplus if the amount is positive, net operating deficit if the amount is negative).

Revenues and expenses are organized into different categories on the statement of operations. Revenues are organized based on the "source" of the revenue (subsidy, market rent, RGI rent, non-rental revenue, etc.). Expenses are organized by category, usually by function (administrative, utilities, maintenance and labour). The different categories used for expenses should help management recognize what types of expenses have been included in each category.

The following lines may be found on the statement of operations:

Revenues

The statement of operations may include the following main revenue accounts:

- **Government subsidy:** The subsidy amount received from the Region for the current fiscal year. This amount is outlined in the housing provider's annual subsidy letter from the Region
- **Market resident rent:** The amount of market rent collected from market residents less any vacancy loss for empty units
- **Rent-Geared-to-Income (RGI) resident rent:** The amount of rent collected from RGI residents
- **Other revenue or non-rental revenue:** Revenue not related to rent including revenue from investments, laundry, parking and other (penalties and other charges)

Expenses

The main expense accounts on your statement of operations may include:

- **Amortization:** The principal portion of the mortgage payment for the year
- **Mortgage interest:** The interest portion of the mortgage payment for the period. The details can be found in the notes to the financial statements for mortgage

- **Utilities:** The expenses recorded for the period for hydro, heating (fuel) and water and sewage. The individual amounts are usually listed in a table or schedule attached to the audited financial statements
- **Property taxes:** The actual amount of property tax paid by the housing provider during the period
- **Insurance:** The amount the housing provider paid for insurance for the period
- **Maintenance and labour:** The total expenses for the period for maintenance and labour. The details are usually listed on a schedule attached to the audited financial statements and include expenses such as: maintenance salaries; wages and benefits; building and equipment; elevators; electrical systems; heating systems; air conditioning equipment; ventilation and plumbing; grounds and landscaping; painting; garbage removal and security
- **Administration:** This line includes a number of expenses usually listed on a table or schedule attached to the financial statements such as: administration salaries; wages and benefits; management fees; materials and services; professional fees; transportation and communications expenses
- **Allocation to capital (replacement) reserve:** The mandatory contribution amount required by the Region for the Capital Reserve Fund. This amount is listed on the Region's annual subsidy estimate letter and represents the amount the Region has calculated (based on an indexed formula) as the amount a housing provider should invest yearly to ensure there are enough funds to pay for major repairs and improvements normally required in buildings and facilities

Surplus or deficit

The difference between the revenues listed on the statement of operations and the expenses is the housing provider's operating surplus (if the amount is positive) or operating deficit (if the amount is negative) for the period. At year-end, the net operating surplus or deficit on the statement of operations is added to the total of the housing provider's accumulated surplus or accumulated deficit.

This total amount of the accumulated surplus or deficit at the end of the period is then included in the net asset section of the statement of financial position.

How the statement of operations and the statement of financial position work together

Although these two financial statements are made up of different accounts they work together to give the Board, management and various stakeholders a complete picture of the housing provider's finances and its financial health. Throughout the year, the housing provider's financial transactions will involve the accounts that make up the two statements - some will affect both statements at the same time.

- **For rental revenue:** The amount of the rent due is recorded on the statement of operations as revenue. On the statement of financial position the same amount is recorded as an account receivable (and then later as an addition to cash as receipts are collected from residents)
- **For repair bills:** The amount is recorded on the statement of operations as an expense. On the statement of financial position it is recorded as an account payable (then as a reduction to cash when the bill is paid)

c. Questions on the statements

Members of the Board are not expected to be accounting or financial experts. However, part of their duties and responsibilities is to oversee the financial statement process to ensure it is carried out by management and to review financial statement results with management. The Board may ask management the following questions during the review. These questions may help identify potential issues with the statements and provide the Board with financial health indicators for the housing provider.

Potential questions:

Statement of financial position

- What are the items that make up the cash and cash equivalents amounts on the statement of financial position? Are any of these at risk of losing their value?
- Who owes us the accounts receivable? Is it residents or former residents? What is the age of these accounts (how long have they been uncollected for)? Is there likely to be a problem in collecting these amounts? Should we be adjusting our collection policies? Have any of the amounts become uncollectable and if so should they be removed from accounts receivable and put into bad debts? Have we contacted a collection agency?
- What are the items that make up the prepaid expenses amount? (As discussed previously, these are amounts paid for services before they take place, like insurance.) Do we have any choice about paying the full amount in advance or can we keep some of the money as cash in the bank for emergencies?
- What are the major types of investments that we hold? Have we been making or losing money on our investments? Have we invested our surplus funds (accumulated surplus) wherever possible other than the Capital Reserve Funds that we are required to invest with Encasa Financial? Do we have an investment policy? Are the investments in accordance with that policy? How risky are our investments? What are the risks associated with these types of investments? Should we have these types of investments at this time? How difficult is it to cash in these investments if we need the money for an emergency?
- What are the capital assets we own? Where in the organization are they used? Are they functioning properly or are they in need of repair or improvement? Do we have plans to replace these assets as needed? Can we use our Capital Reserve Fund to pay for replacements? If yes, do we have enough in the fund to do so? If no, do we have another source of funds that we can use? Do we have appropriate insurance on these assets in case they are damaged?
- To whom do we owe accounts payable – the Region, CRA, our suppliers? Do we pay these amounts on a timely basis so that we aren't paying penalties or interest charges?
- What is the renewal date for the mortgages or loans outstanding? What new interest rates are we likely to pay when we renew? How do they compare to the rates we are currently paying? Do we have an additional subsidy loan with the Region? If so, has the work been completed on the project(s) that we borrowed the funds for? How soon will we have to start contributing our share of the operating surplus to the outstanding balance of the loan? How will this affect our ability to build our accumulated surplus for an emergency?
- What are the items that are included in other liabilities? Who do we owe money to and why? When will these amounts be due, will we have the cash resources to pay them?

It is also good practice for Board members to compare the figures on the financial statements for the current year with figures from the previous year. Significant changes over time (both increases and decreases) in key accounts may be worth discussing with management.

Potential questions:

Statement of operations

The questions that apply to the revenues and expenses on the statement of operations ensure the housing provider is maximizing revenue and minimizing expenses.

Potential questions about
revenue sources listed on the statement of operations

- What are the different sources of revenue for the organization? Is the organization maximizing the revenue it receives from these sources? Is the housing provider keeping as much of the subsidy paid from the Region by meeting its budgeted RGI resident targets? Are we charging the right amount of rent to market residents? Is the market rent above the benchmark? Are vacancies being minimized? Are units being re-rented quickly?
- What other sources of revenue does the housing provider have other than rent and subsidies? Are these sources of revenue (laundry, parking etc.) being maximized?
- Is the organization maximizing its investment income while still fulfilling its loan and Capital Reserve Fund obligations? How does our investment income compare to prior years? Have we set a target for the return on our investments? Are we meeting this target? Can we expect the same level of returns in the future or should our investment plans be adjusted? Are we minimizing the fees we are paying on our investments and for the investment advice/management we are receiving?
- Do we have collection policies in place and are we following them in order to make sure we are turning our accounts receivable into rent revenue as soon as possible? Do we have payment plans with residents who are having issues paying their rent?
- How secure is each source of revenue for future periods?

Potential questions about
expense accounts on the statement of operations

- What are our major expenses?
- Are our administration and maintenance expenses above or below the indexed benchmark? If they are above are there any opportunities for savings without affecting the quality of life of our residents? Is our level of maintenance adequate to maintain our capital assets and prevent major structural or health and safety issues in the future?
- Are our hydro, water and heat expenses above or below the indexed benchmark? Are there any opportunities for savings without affecting the quality of life of our residents?
- Are we prioritizing our expenses and making sure that essential repairs are being carried out before less urgent issues like landscaping?
- Are we minimizing our bad debt expense by following established collection policies and creating payment plans for our residents with unexpected financial issues?
- Have we taken advantage of Regional or Provincial grants and funding to minimize our utility costs (installing LED lights, installing more efficient insulation)?

Similar to the statement of financial position, when reviewing the statement of operations it is good practice for Board members to compare the figures for the current year to the previous year. Any significant changes over time (both increases and decreases) should be discussed with management. Of particular interest will be the housing provider's operating surplus or deficit for the year compared to the previous year. It is this line that should lead to a careful review of the accounts and of any issues with the accounts that may have driven this result.

d. The audit

The audit is a valuable process for the Board because it provides a second opinion from an outside third party, an auditor, about management's performance and the internal controls for the organization. It is the auditor's responsibility to review the books and records of the organization, as an important check on management activities.

The auditor looks for proof or evidence that the accounting information included in the financial statements is correct. The auditor will also review the organization's internal controls and accounting procedures (such as the process for having a cheque created to pay a supplier) to ensure they are adequate and reliable. The auditor will analyze sampled information in the accounts to see whether it matches the organization's activities. For example, are the amounts and invoices charged to the electricity expense account for amounts related to the operation of the housing provider's facilities for its residents? Finally, the auditor will look at the financial statements and the accounting policies used by the organization to make sure that they are prepared according to Generally Accepted Accounting Principles (GAAP) and any special reporting requirements of the Region (such as the treatment of additional surplus loan on the financial statements) which are exceptions to the GAAP rules and are detailed in the Notes to the financial statements.

Once the auditor has gathered this information and completed a review of the statements and processes, they will then use their professional experience to answer the question of whether the financial statements provide a fair presentation of the organization's financial position and the results of its operations. This is the called the auditor's opinion. At the end of the auditor's engagement, the auditor communicates that opinion to financial statement users through the auditor's report.

The auditor's report contains the audited financial statements (which include the notes to the financial statements) and the auditor's letter with the opinion about the audited statements. The notes to the financial statements provide additional important details and information that support certain accounts and figures in the audited statements. Notes are important because they provide additional explanation about the financial statements to help users understand some of the more complex items in the financial statements. They can be as important as the information included in the body of the statements themselves.

The auditor's opinion in the audit letter can be "unqualified" or "qualified." An "unqualified" opinion means the auditor is satisfied the financial statements of the organization present the affairs and accounts of the business fairly. A "qualified" opinion means most of the accounts have been presented correctly except for a few issues. An example of an issue could be a disagreement between the auditor and management about how an accounting policy has been applied to an account.

The Board should look for an unqualified audit opinion demonstrating that the auditor agrees with the presentation of the accounts in the financial statements. The Board should investigate any "qualified" opinion with the auditor and management to determine what possible issues exist.

When reviewing the draft audited statements, Board members may wish to keep these questions in mind:

- Did the auditor require significant account adjustments to the statements originally prepared by management?
- Did the auditor find any weaknesses in internal controls or accounting policies?

- Did the auditor have any concerns about the activities of the organization that are the basis for the financial statements?
- Did management make significant estimates in the financial statements and did the auditor have any concerns about them?
- Were there any issues that might have caused the auditor to issue a qualified opinion?
- Was there a private meeting with the auditor (without management present) and a private meeting with management (without the auditor present)?

Once satisfied with the audited financial statements, the Board will approve them and make them available to the housing provider's stakeholders, such as the Region.

6 York Region programs

As our social housing stock continues to age, it is necessary and prudent to have a proactive strategy to maintain the building stock. To help housing providers address their capital needs, build their capital reserve funds and implement new innovative programs in their communities, the Region has developed the following programs:

- Surplus Sharing Agreement
- Additional Subsidy and Loan Program
- Social Housing Innovation Fund

a. Surplus Sharing Agreement

Under a surplus sharing agreement, the Region allows housing providers to keep the Region's share (50 per cent) of any in-year surpluses and contribute it to their capital reserve fund. Allowing providers to keep surpluses creates incentives for good business practices and builds reserve balances. Surplus retention is conditional upon submission of annual capital plans for Regional approval.

b. Additional Subsidy and Loan Program

Unlike private sector organizations, housing providers cannot renegotiate or extend their mortgages to secure additional financing. Housing providers can borrow from the Region for repairs and improvements to capital assets and equipment that cannot be covered by the housing provider's capital reserve funds. The Region offers an additional subsidy or a secured loan, as outlined on the next page.

	Additional subsidy	Secured loan
Loan amount	Up to $499,999	Amounts over $500,000
Interest rate	N/A	The 10-year Province of Ontario Bond Rate plus the spread at which the lender's debentures are trading or 2%, whichever is greater
Security	Unsecured	Secured on title
Repayment	Payments are equal to 75% (Region's 50% plus half of housing provider's 50%) of the yearly operating surplus. The remaining 25% can be retained by the housing provider in their accumulated surplus account.	Repayment begins upon retirement of the housing provider's first mortgage. Half of the housing provider's 50% of any operating surplus (or 25% of the total surplus) plus the Region's 50% of the operating surplus should be contributed to a separate surplus account. The remaining 25% of the operating surplus can be retained by the housing provider in their accumulated surplus account. This process continues until the first mortgage has been paid in full at which time payments on the secured loan can commence.

These advances are subject to availability of funds in the approved Regional budget. Loans are conditional upon submission of capital plans for Regional approval.

c. Social Housing Innovation Fund

The Social Housing Innovation Fund helps housing providers develop solutions to meet new requirements. For example, funding could be available to address the need for recreation and leisure space, accessibility upgrades, community programs and initiatives and green initiatives focusing on energy conservation and not intended to be used for capital replacements or repairs.

Housing Providers are expected to make a 50 per cent (25 per cent for accessibility) contribution of the total cost of their projects, although the Region may consider waiving all or a portion of the provider's contribution. Applications for the Social Housing Innovation Fund are accepted once a year.

7 The subsidy calculation and year-end settlement

To understand the housing provider's finances even further, Board members should be familiar with how subsidies are calculated and what happens during the year-end settlement process. This is especially helpful when reviewing the annual budget and year-end financial statements.

Subsidy calculation

A housing provider's subsidy is estimated at the beginning of each fiscal year and then reconciled at the end of the fiscal year. The estimate determines the amount of subsidy the housing provider will receive from the Region on a monthly basis. At the end of the fiscal year, the Region uses the housing provider's financial statements and Annual Information Return (AIR) to adjust the subsidy payments to reflect the difference between the amount of subsidy the housing provider is entitled to and the amount that was paid by the Region.

Housing provider subsidy is made up of three components:

a. Rent-geared-to-income (RGI) subsidy equal to the difference between the rents charged to RGI households during the year and the benchmarked rents

b. Operating subsidy calculated based on Provincially benchmarked revenues and expenses

c. Property tax subsidy equal to the actual property taxes due for the fiscal year

The Province established cost and revenue benchmarks in 2006 that determine the annual subsidy levels paid by the Region to housing providers under the HSA. These benchmarks change annually based on economic conditions.

a) RGI subsidy

The RGI subsidy allows housing providers to subsidize some of their units by bridging the gap between the RGI paid by a resident and the benchmarked rent. For example, if the benchmarked rent for a two-bedroom townhouse is $900 and an RGI resident pays $400 in rent, the housing provider would receive an RGI subsidy from the Region of $500. Benchmarked rents are adjusted every year based on an index determined by the rent control guidelines provided by the Ministry of Housing.

b) Operating subsidy

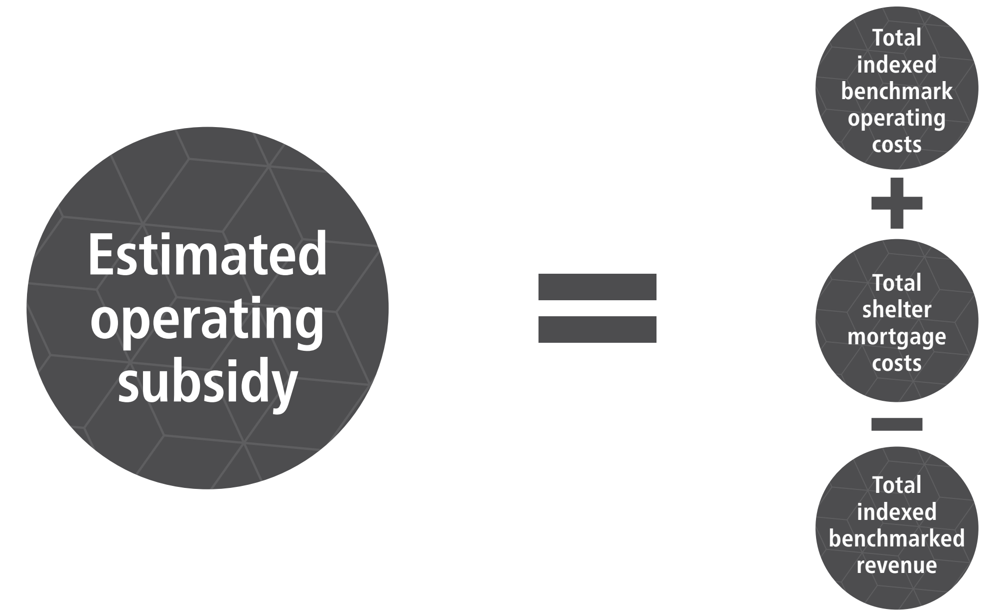
The operating subsidy is the difference between the benchmarked revenue and the cost of the housing provider's mortgage and benchmark operating costs. Benchmarked revenue includes:

- Rental revenue
- Non-rental revenue
- Vacancy loss

Similar to the RGI subsidy, the Province established benchmark operating costs in 2006 that change every year based on an index. The index is the Ontario Consumer Price Index (CPI). The CPI is a measure of the rate of price change for goods and services bought by Canadian consumers and adjusted for each province. Each type of expense has its own index.

The different types of expenses included in the benchmark operating costs include:

- Administration and maintenance
- Insurance
- Bad debt
- Hydro
- Water
- Heat
- Capital reserve contributions



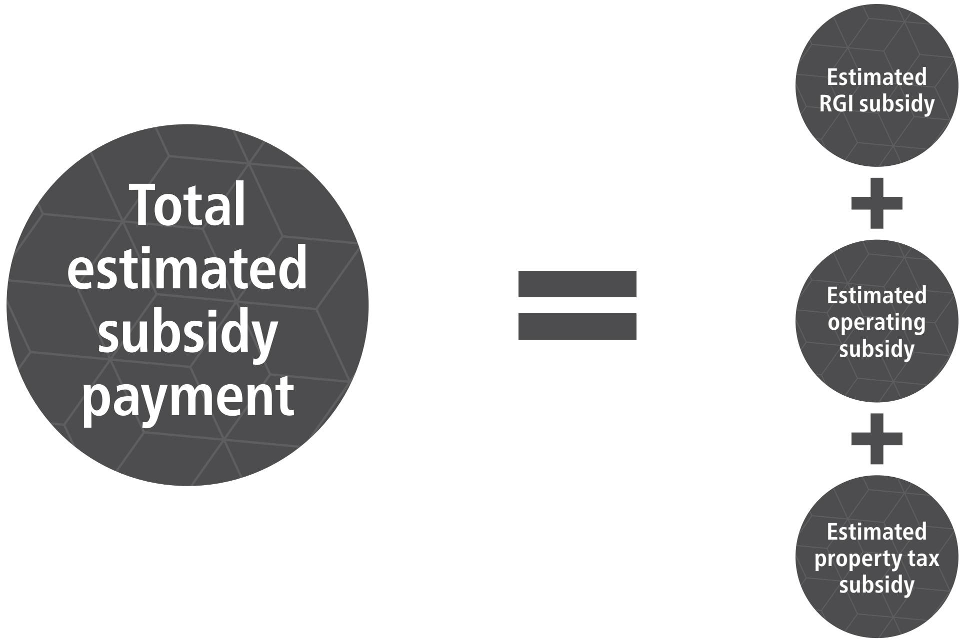
c) Property tax subsidy

The property tax subsidy is based on the previous year's tax bill and an estimated percentage increase.

d) Total estimated subsidy payment

The total estimated subsidy payment is the amount of subsidy the housing provider will receive from the Region for the year. It is made up of the RGI subsidy, the operating subsidy and the property tax subsidy.

The annual subsidy estimate letter sent by the Region at the beginning of the provider's fiscal year includes the total estimated subsidy amount, the monthly subsidy payment and the amount of the required transfer to the capital reserve fund.



Year-end settlement process

Housing providers are required to send their audited financial statements and Annual Information Return (AIR) to the Region five months after the fiscal year-end. The Region performs an annual review using the AIR and the audited financial statements to adjust the subsidy payment to reflect the actual property taxes paid and the actual rents charged to RGI households. This subsidy reconciliation results in a subsidy overpayment (which will be recovered by the Region) or a subsidy underpayment (which will be paid to the housing provider).

The annual review also looks at any operating surpluses the housing provider may have generated. The amount of operating surplus that the Region recovers depends upon whether the housing provider is participating in a surplus sharing agreement with the Region or if it has an additional subsidy or loan from the Region.

If the housing provider has an accumulated deficit (the annual deficit amounts over the years are more than the annual surplus amounts) then the housing provider may, with Regional approval, keep the entire annual surplus for the year to offset the accumulated deficit amount.

If the housing provider has entered into a surplus sharing agreement with the Region, the provider can keep the entire surplus and contribute 50 per cent to its accumulated surplus and the other 50 per cent to its capital reserve fund. This is a good way for the housing provider to maximize the balance of its capital reserve fund.

If the housing provider has an additional surplus loan then the Region's 50 per cent share of the surplus is put towards paying down the outstanding balance of the loan as well as half of the housing provider's share. In other words, 75 per cent of the surplus is used to pay down the outstanding loan balance. The housing provider's remaining 25 per cent of the operating surplus is contributed to the accumulated surplus.

The results of the annual review, including the Region's recovery of the operating surplus, are detailed in an annual review letter sent to the attention of the housing provider's President or Chairperson once the review is complete.

Potential questions regarding
the settlement process

- **Why does the Region take back subsidy money at year-end?**

  When the Region recovers an amount during the year-end review and settlement process (other than a share of the operating surplus if no surplus sharing agreement has been signed) it is not doing so to penalize housing providers. It is recovering unused subsidy amounts that were overpaid to the housing provider based on their estimated needs versus their actual needs. These funds can then be redistributed by the Region to support RGI residents at other housing providers.

  The unused portion of the subsidy is the result of one of two situations or a combination of both. The provider's property taxes may have been less than the Region's estimate or the housing provider failed to meet budgeted targets for the number of RGI residents housed during the year. The RGI subsidy amount is based on the target number of RGI residents. If fewer RGI residents are housed than targeted, the difference in the subsidy is reclaimed by the Region so the funds can be redistributed to house RGI residents at other housing providers.

- **What is the 24-month RGI equivalent rule for residents and how is it reported on the AIR?**

  If an RGI resident ceases to qualify for subsidy and begins to pay market rent, the resident is still reported as an RGI resident on the AIR until the resident has paid market rent for 24 months. After the 24-month period the resident is considered a market resident and is entitled to stay in the unit.

- **Are the statistics sections on pages C1 and C2 of the AIR important?**

  All pages of the AIR must be filled out completely each year before submission to the Region. Pages C1 and C2 are important because the statistical information requested is shared with the Provincial government and is used in statistical reporting.

8 Capital reserve (replacement) fund

The purpose of the capital reserve fund is to ensure housing providers accumulate funds that can be used in the future for major capital repairs, improvements, upgrades and replacements. Housing providers are required to make an annual contribution to their capital reserve fund. The amount is determined by the Region and included in the Region's annual subsidy letter. It is important that the Board and management include this amount when they create the annual budget and show this amount as a separate item in the financial statements. The required annual reserve contribution is generally considered to be a minimum and may not be enough to fund future repair work. The Board and management should take every opportunity to maximize the contributions to the capital reserve fund whenever possible.

When reviewing the capital reserve fund, Board and management should consider the following:

- The housing provider is required to make the annual contribution to its capital reserve fund. The net assets section of the statement of financial position should increase by the same amount, the Board will need to transfer the cash from the operating account to the reserve account
- If the account is not being increased by the required amount, it is a sign to the Board and management that the restricted assets are either not being accounted for correctly or the organization does not have the money to fully fund the capital reserve and is therefore having difficulties meeting its operating expenses which could lead to an operating deficit situation
- Similarly, if the balance of the capital reserve fund declines compared to prior years and there have been no capital reserve expenses approved by the Region, it is a sign that either the funds are being used for other purposes or the reserve fund is not being accounted for correctly
- The Board and management should also be concerned if there is no capital plan for the amounts accumulated in the capital reserve fund. A capital plan predicts when you will need to replace or make major repairs, how much they are expected to cost, and how much money you should set aside to pay for them. The capital plan is not mentioned in the financial statements but the Board should ask management if one has been created. If a capital plan has not been created or recently updated the Board and management should work together to create one
- In order to maximize the capital reserve fund, the Board and management should consider entering into a surplus sharing agreement with the Region. Under this agreement the housing provider is allowed to keep the Region's share (50 per cent) of any operating surplus and contribute it to its capital reserve fund. If later on the housing provider enters into a loan agreement with the Region, then the surplus sharing agreement ceases

Investing capital reserve funds

Housing providers are required to invest their capital reserve funds in an investment pool administered by the Social Housing Services Corporation Financial Inc. (SHSCFI), created by the Housing Services Corporation. This investment program was designed to give housing providers more investment options and a chance to increase their investment income. Encasa Financial is the investment firm hired to advise housing providers on their investment choices and manage the investment funds.

It is a best practice for housing providers to maximize the income they make on their investments whenever possible. This is because over time, the costs of replaceable items are likely to increase. Capital reserves must earn income to keep up with these increases to ensure there are enough funds when needed. The capital reserve investments must earn annual interest that is at least equal to the increase in the Consumer Price Index (CPI). For example, if the CPI increase averages 2.5 per cent over a five-year period the housing provider's invested reserves should be enough if the average annual interest earned on the investments in the same period is at least 2.5 per cent.

9 Financial strategies for housing providers

Members of the Board are not expected to be financial and accounting experts but the financial health of the housing provider is ultimately their responsibility. It is the Board's responsibility to review the budget on a regular basis throughout the year with management and question items as required. This section will provide some strategies for the Board and management to follow. Strategies are arranged based on the financial statement on which they appear and their order of appearance on the statements.

Statement of financial position (balance sheet) strategies

Cash

When we talk about cash or how much cash an organization should have on hand we are referring to chequing account balances or very short-term investments rather than actual, physical cash such as petty cash. To limit the possibility of theft, it is best practice for organizations to keep as little physical cash on the premises as possible.

Petty cash should be limited to a small, fixed amount that is only given out in exchange for a low value invoice, a valid receipt or to make change for laundry or parking. All other invoices should be paid by cheque (or electronic fund transfer – EFT) on terms after an invoice has been submitted and entered into accounts payable.

If the situation arises where no alternate form of payment other than an Interac e-Transfer is possible, the Board must ensure an e-transfer policy is developed and internal controls are in place to reduce the risk of fraud. A guide to developing an e-transfer policy is available in the resource section. It is essential that the organization has enough cash available in its chequing accounts to pay for its day-to-day and monthly expenses. It is difficult to suggest a minimum chequing account balance for an organization. Limit this balance as much as possible and invest any amount left over in investments that are easy to convert to cash and pay interest to maximize income on unused cash. Cash balances increase and decrease throughout the annual budget cycle. However, an organization should always have a cash "cushion" for unexpected expenses (such as a maintenance emergency) that was not predicted in the budget.

The "cushion" amount will vary by organization. Some suggest keeping an amount equal to two months of your budgeted expenses, while others suggest that housing providers keep a minimum operating cash balance of at least 1.5 times the full monthly housing charge budget for all units. When considering the right amount of operating cash for your housing provider, ask the following questions:

- What is the level of operating cash on hand and in our chequing account(s) as a percentage of the monthly budget? Is this level declining?
- Do we have other assets or investments we can sell quickly if we need the cash?
- Does the organization have a reasonable cash cushion?
- Is the level of operating cash equal to two times the organization's budgeted total of full monthly expenses? If the operating cash is below 1.5 times average monthly housing expenses management should pay attention to the cash position. An unexpected cost or loss of income could affect the organization's ability to make payments and lead to strained relations with suppliers and insufficient fund charges at the bank

Board and management should be concerned if the level of operating cash declines. Cash will fluctuate throughout the year as annual expenses like taxes and insurance come due. If operating cash is trending downwards over the long-term, management should investigate the causes including the possibility that receivables and/or vacancies are increasing.

Accounts receivable (resident receivables)

Accounts receivable is an accounting term for money that is owed to the organization. Resident receivables are amounts that residents owe to the housing provider, usually for unpaid rent. If these amounts are past due they are also known as arrears. A high level of resident receivables can become an issue. Management must watch for the amount of resident receivables and their "age," or how long they are past due. The older the receivables are the more likely they will become uncollectible and turn into bad debts, a serious problem for the housing provider as they directly affect the amount of cash the provider has available to pay bills and to operate the organization on a daily basis. If the bad debts are allowed to grow too large they also affect the operating surplus. The Board and management should look for the following:

- High arrears balance
- Average "age" of the arrears balance
- Growing arrears

While a housing provider's mission is to provide a safe, healthy and affordable source of housing to members of the community who cannot afford to pay market level rents, resident rent is the housing provider's lifeblood. Residents must pay their rent on time to ensure the housing provider is financially able to provide the quality of life that its residents expect and deserve. Controlling arrears should be a top priority for management and the Board.

What is a reasonable amount of arrears? Some would say the only reasonable amount is zero, and zero arrears should be the target for the organization. However, unexpected events occur and it is likely that every housing provider will deal with some amount of arrears. Management should identify these arrears as soon as possible before they turn into uncollectible bad debts. The Board should ensure that management has a collection policy in place to manage arrears, and enforces it. A collection policy should include a provision for payment plans that can be put in place for those residents who have experienced a financial set back and are having trouble paying their rent.

It is also important for the Board and management to determine if the arrears are growing. If the arrears are increasing, management must find out why. Is the problem with one particular household or is arrears management failing? Steps should be taken to correct the problem by; reviewing the housing provider's collection policy, ensuring that management enforces the policy and confirming that residents in arrears are on a payment plan to prevent the arrears from becoming uncollectible and written off as bad debts.

Accounts payable

A housing provider's accounts payable is made up of the amounts owing to others which must be paid within one year or less.

Each time the organization receives a bill for goods and services the bill amount should be entered into the accounting system as an account payable so that all outstanding bills can be tracked at the end of each month. The provider's accounts payable balance will vary over the year depending on purchases and when and how often repairs and maintenance are carried out by an outside supplier. If the accounts payable balance steadily increases, it could mean that:

- The organization's bills are not being paid
- The accounts payable are "aging"

"Aging" payables mean that the housing provider has unpaid and past due bills. This increases the risk of legal action for collection, penalties and interest charges, or even a possible shut-off of service by a utility company. It is very important for the Board and management to properly manage the accounts payable account and the age of the payables. It is best practice to have an accounts payable aging report produced each month and reviewed by management to identify and examine any past due invoices on the organization's account.

Unpaid accounts payable invoices could also be a sign of cash flow issues, or that the organization's financial administration is being neglected. Management should deal with this issue immediately. Management should ensure that the staff understands the importance of entering all invoices into the system as soon as they are received so that the Board and management can determine the organization's cash needs and the variance between the actual amount of expenses and the amount in the budget.

Statement of operations (income statement) strategies

This section offers Board members some financial strategies to consider when reviewing the statement of operations and its accounts.

Market and RGI rent revenue

When the Board and management create the organization's annual budget, the assumption is that the maximum indexed rent for each unit size (1 bedroom apartment, 2 bedroom town house etc.) will be collected directly through market rent or from a combination of the RGI resident's rent payment and the rent subsidy to which the resident is entitled. A small allowance must be made for any market vacancies that might occur. The combination of housing charges and the allowance for market vacancies is the organization's rental revenue for the annual budget.

If management finds that the actual amount of rental revenue falls short of the budget estimate they must investigate. Market vacancies are likely greater than the vacancy allowance budgeted, or the housing provider is not achieving its RGI unit target.

Vacancy loss

Unbudgeted vacancies must be taken seriously because they represent lost revenue. This can cause a short-term cash flow shortage that may make it difficult for the housing provider to carry out its daily operations including essential maintenance and repairs. Vacancy losses can be caused by the following:

- A poor process for filling vacant units, perhaps involving too many decision steps
- No clear marketing strategy for filling vacant units
- Vacant units are not in occupancy condition
- A combination of these factors

It is important for the Board to carefully review reasons for unbudgeted vacancies and address the cause(s). The Board should also ensure the allowance for vacancies is not a large one when setting the budget for rental revenue at the beginning of the fiscal year. A large vacancy allowance could be a sign that the housing provider has come to accept vacancies as normal. Housing providers should avoid vacancies through proper unit maintenance, a well-defined marketing plan and by connecting with the Region if they are having difficulties filling RGI units off the Region's subsidized housing wait list.

Low vacancy loss means the housing provider is keeping as much of its budgeted rent revenue as possible. Low vacancy loss also indicates that market rents are set at competitive levels, the provider's units are well maintained and procedures for filling vacancies as soon as possible are in place. Again, rent revenue is the housing provider's lifeblood and is essential to financial health.

All housing providers have mandated target plans that identify the number of market and RGI units they are required to have. Housing providers must make every effort to achieve and maintain their target plans. Every time a unit turns over, the housing provider must check their target plan and current unit mix to determine if the unit should be rented to a market or RGI resident. Housing providers must report yearly vacancies and move-outs on the Annual Information Return (AIR), and report turnovers to the Region.

Other important information on RGI units

- Regulations require a vacant unit be considered an RGI unit if the housing provider is below its RGI target and the unit is rented to an RGI resident. It is critical that housing providers are maintaining their mandated targets plans and filling all required RGI vacancies
- When residents give notice that they are vacating a unit, the housing provider must consult their targeting plan and current unit mix to determine whether the unit should be rented to an RGI or market resident. If the housing provider has fewer than the required number of RGI units, the provider must select the next eligible household from the subsidized housing wait list for placement in the unit
- Housing providers must track and report vacancies and move-outs in their housing properties for RGI and market units. A vacant unit is considered an RGI unit if the provider is below target for RGI units and intends to rent the unit to an RGI resident. This information is required on pages 10 and 11 of the Annual Information Return (AIR) as part of the annual reporting package to the Region
- A household may no longer qualify as RGI if it:
  - → Does not meet an eligibility requirement
  - → Does not provide information and documents within the required timeframe
  - → Is over housed and refuses a total of three offers of housing while on the Internal Transfer Waiting list
  - → Has failed to obtain income to which it is entitled
  - → Does not divest property as required
  - → Is away from their unit for more than 90 days
  - → Has paid market rent for one year

When a household living in social housing no longer qualifies for RGI assistance, it is entitled to stay in its unit but will be charged market rent.

Expenses

There will always be differences between the budget and what is actually spent, and when, during the housing provider's fiscal year. For example, some housing providers divide the annual budget figures into equal monthly amounts on their financial statements, but many types of expenses do not follow the same pattern. Budgets can be under-spent for good reason. Sometimes the housing provider will incur unavoidable expenses that were not included in the budget. The Board and management should not expect that the actual expenses will be an exact match to the budget. However, it is important for the Board and management to look for significant variances compared to the budget and investigate them. The Board should ask management about significant differences between budgets and expenses. Are the variances to do with the timing of expenses or do they mean something else? Could the variances be the result of poor budgeting at the beginning of the year or a lack of spending control? Was there a failure on the part of management to carry out planned spending?

Failing to carry out spending as budgeted can become very serious when the budget is for maintenance and repair work.

Maintenance spending is crucial for the long-term physical well-being of the housing providers' buildings, facilities and equipment. When reviewing the budget compared to actual results during the year with management, the Board should look for the following:

- A maintenance expense with a large variance compared to the budget because of significant under–spending. When a housing provider sets its budget for maintenance, it should be based on actual maintenance plan costs for the year. In a well-maintained plan, this should include:
    - → Preventive maintenance and equipment servicing
    - → A quick response to repair requests
    - → Emergency repairs
- Management should ensure all maintenance and repairs are carried out to a professional standard
- Some housing providers rely on volunteers when work requires skilled trades. The result can be poor quality repairs and a significant portion of the maintenance budget that is not spent. Some organizations view this as a positive savings. Under-spending the maintenance budget is not wise and means maintenance is being deferred or done poorly
- A maintenance budget that is supported by a maintenance or capital plan and has enough funding to carry out the plan
- Evidence in the financial statements that the amount budgeted for maintenance is actually being spent. As with some other expenses, maintenance funds are spent at different times over the year, but a consistently unspent maintenance budget should be reviewed with management

Bad debt

Bad debt is an expense that should be reviewed carefully by the Board and management. It is a provision for money owed to the housing provider by previous residents that management feels will not be collected. Bad debts begin with an allowance for doubtful accounts on the statement of financial position when management loses confidence that they will be able to collect the entire past due amounts that are owed. This amount is shown as a bad debt expense on the statement of operations as a deduction from resident rent revenue. Many providers do not budget for bad debt; others do based on past history.

Making an allowance does not mean that management should stop trying to collect what is owed. However, amounts that cannot be collected must be written off. A bad debt write-off represents lost income that can never be recovered. It is extremely important that the Board ensures management keeps bad debt to a minimum by having and enforcing a well-defined collection plan. This plan should include the outline of a payment plan for residents who have experienced unexpected financial difficulties.

These measures should help to minimize the amounts that eventually become uncollectible and are referred to a collection agency. Some of the specific advantages of a well-planned rent collection and arrears policy include:

- Ensuring rental charges are paid on time
- Evictions for late payment or non-payment of rental charges are prevented whenever possible
- The housing provider has the funds to pay expenses that were included in the budget
- The documentation needed to justify an eviction or termination is available, if it becomes necessary
- Consulting the Former Tenant/Member Arrears Database as part of the screening process for RGI residents
- Completing and submitting the Tenant/Member Arrears Form from the Housing Access Unit to update the Province-wide Arrears Database and encourage former RGI residents to clear up rental arrears or damages owed to housing providers or the Region
- Developing a short-term repayment plan for rent arrears can help people experiencing financial difficulties

The collection and arrears policy should be explained to all residents to ensure they understand:

- They are responsible for making monthly rent payments
- When the rent payment is due
- What will happen if the rent is not paid on the first of the month
- What to do if they have short-term financial difficulties

Maintaining a current rent roll listing will enable management to:

- Track rent charges for RGI and market units, which can affect the housing provider's cash flow and budget, and any subsidy/repayable assistance payments as applicable
- Monitor and control arrears

The current rent roll can also be used by management to track:

- Who is living in each unit
- The rent charge for each unit
- Whether the rent charge is paid every month
- When and how the rent charge is paid

If the Board starts to see significant bad debt expenses, or bad debt that is increasing compared to prior years and going over budget, they should discuss it with management and ensure that management is enforcing the housing provider's collection policy. Housing providers should not give up on collecting rent owed just because a resident has left. Money owed to the housing provider is a legally collectible debt and the Region should be contacted for further advice.

10 Surplus and deficit strategies

Operating surpluses

An operating surplus occurs when a housing provider’s revenue for the year exceeds its expenses. As a best practice, housing providers should try to generate annual operating surpluses as long as essential operations and repairs are complete.

Some of the ways an organization may maximize its operating surplus include:

- Efficient management practices that focus on responsibly reducing expenses where possible and maximizing revenue through meeting RGI resident targets, minimizing market vacancies, maximizing market rents and ensuring an efficient collection policy for resident related accounts receivable
- Partnering with other housing providers to share staff or buy in bulk to reduce costs
- Generating additional revenues from various sources. This includes collecting revenue for parking and laundry and reviewing the organization’s investment policies to ensure they are maximizing investment income
- Using surpluses correctly to repay any outstanding deficit from a previous year that hasn’t been offset by an accumulated surplus
- Taking advantage of the surplus sharing agreement program offered by the Region. Under a surplus sharing agreement, the Region allows housing providers to retain the Region’s share (50 per cent) of any in-year surpluses and contribute it to their capital reserve fund. Allowing providers to retain surpluses creates incentives for good business practices and builds reserve balances

Maintaining a moderate operating surplus

A modest year-end operating surplus means that the Board and management created an accurate budget and the housing provider controlled spending according to the budget. It also means that planned maintenance took place according to the housing provider’s long-term plan. A large operating surplus may indicate that the annual budget was inaccurate or that planned maintenance did not occur.

Operating deficits

Operating deficits can occur if:

- The annual budget does not estimate actual costs properly
- Expenses are not monitored and controlled properly
- Revenues are less than needed to offset the organization’s expenses

Deficits often occur as a result of market rents being too low. A monthly operating deficit may not be the sign of a problem since some expenses tend to “bunch up” at certain times of the year. It is important to remember to review deficits, especially if they persist regularly.

Strategies to manage deficits include:

- A budget review to identify areas where savings can be achieved. For example, reducing expenses where possible without risking the health and safety of the organization’s residents or the long-term condition of buildings and equipment
- Reviewing collection policies and addressing arrears or bad debts
- Reviewing vacancies and the reasons for them
- Using the accumulated surplus to offset any deficit in operating costs in the short-term while the Board and management develop solutions and strategies to ensure a return to operating surpluses over the near term
- A review of the actual market rents being charged to ensure they are generating as much revenue as allowed

Accumulated surplus/deficit

The organization’s accumulated surplus is the combination of all operating surpluses and deficits from previous years. The primary purpose of the accumulated surplus is to provide funds in an emergency. In the case of an operating deficit, the accumulated surplus funds should be used to offset it first. Board and management can then determine why the deficit occurred and work with the Region to put together a plan that will return the organization to an operating surplus. This must be done as soon as possible so that the accumulated surplus is not severely depleted or eliminated by several years of operating deficits.

11 Policy Guidelines

Credit Card Policy

Objective

For many housing providers, corporate credit cards are a convenient alternative to maintaining a petty cash fund for routine, low value business related purchases made on behalf of the housing provider by an authorized user. This convenience comes with the financial risk that, like petty cash, the credit card can be used for non-approved purchases. The objective of a strong credit card policy is to ensure adequate written rules are in place which address who is authorized to use the corporate credit card(s), what types of purchases are permitted and that controls are implemented which enable management and the Board to monitor their use.

Purpose

The purpose of a credit card policy is to reduce the risk of financial loss and fraud associated with the use of corporate credit cards by providing the card users as well as the Board and management with a set of written rules for the use of corporate credit cards and a specific process which must be followed for the review and authorization of all credit card purchases.

Policy

A well designed credit card policy should provide the Board and management with the tools they need to exercise adequate control over the use of all corporate credit cards. A complete credit policy should include:

1. Written rules, approved by the Board, detailing who is authorized to use the provider's credit card(s), what specific type(s) of low value purchases the card(s) can be used for and a dollar limit on amount of each credit card purchase as per the provider's board-approved purchasing policy
2. Signed acknowledgement by all credit card users that they have been given a copy of the board policy on the usage of corporate credit cards
3. A requirement for all credit card purchases to be supported by receipts which have been signed by a board-authorized individual such as the property manager
4. A requirement that all signed receipts and the monthly credit card statement are reviewed, reconciled and signed by a board-authorized individual such as the Treasurer
5. A requirement for credit card statements to be reviewed by the entire Board on a monthly basis
6. Access for the property manager and all Board members to view credit card statements online
7. A storage policy for credit cards when not in use and the requirement that card numbers are kept on file in case of theft or loss

If you have any questions or require any further information about creating a credit card policy please contact your Program Coordinator.

Information Retention, Storage and Security Policy

Objective

O Reg. 367/11 sets the standards for records management for all housing providers who are governed by the *Housing Services Act (HSA)*. The objective of a well-developed information retention, storage and security policy is to ensure that the Board and management have satisfied their responsibilities to be in compliance with this and any other legislation that the housing provider must adhere to.

Purpose

The purpose of an information retention, storage and security policy is to provide a clear set of steps for the Board and management to follow in order to ensure the provider is compliant with any relevant rules, regulations and legislation that apply. A written set of policies also helps management and staff create processes which ensure compliance. They also provide a roadmap for the Board and auditors to follow during their review of these policies to confirm they have been implemented and are being followed.

Policy

A well designed information retention, storage and security policy will help the Board to meet its legal and fiduciary responsibilities in terms of records management. A complete information retention, storage and security policy should include:

1. A detailed, written process which states:
   - Who is responsible for maintaining the various types of files and records: RGI member/tenant files, financial records and legal agreements/contracts
   - How the files are organized, archived and secured
   - Who has access to the files, where they are archived and how they are retrieved
   - Who authorizes the destruction of records that no longer need to be retained
   - The specific process required for the retention and storage of electronic records
2. The incorporation of any legislative requirements that the provider must meet, such as those specified under O Reg. 367/11 for HSA providers, to ensure that the process guarantees compliance
3. The creation of training materials so that new staff are aware of and follow the policies
4. The creation of internal controls to ensure the process is being followed and that the records are secure
5. Regular review by management so they can assure the Board that the process has been implemented and is being followed as designed

If you have any questions or require any further information about creating an information retention, storage and security policy please contact your Program Coordinator.

Investment Policy

Objective

It is the responsibility of the Board of Directors to safeguard the housing provider's financial assets and to ensure these funds (accumulated surplus, capital reserve, tenant deposits, etc.) are both sufficient and available to help the provider achieve its goals and satisfy its obligations to its members and tenants. The objective of a well-designed investment policy is to help ensure that the Board is able to fulfill this responsibility.

Purpose

The purpose of the investment policy is to guide the Board in investing the provider's long-term balances (capital reserve fund and accumulated surplus for example) by clearly detailing how the funds will be invested, how long they will be invested, the level of returns expected and who has the authority to make and approve investment decisions on behalf of the provider.

Policy

A well designed investment policy will help the Board to ensure the provider is able to meet both its current and long-term goals and responsibilities. Any investment policy should only be created in consultation with an experienced investment professional who can help align the provider's needs and desire to maximize income with its risk tolerance and financial position. A complete investment policy should include:

1. An outline of the provider's investment principles such as:
    - Risk tolerance and financial goals
    - Allowable investments as per the *Housing Services Act* (if applicable) including any specific requirements and constraints for capital reserve funds
2. A determination of which investment policies apply to what types of funds (Capital Reserve Fund, accumulated surplus and tenant deposits)
3. A clear outline of the provider's goals for the investment policy which takes into account:
    - Current and future capital needs as per the provider's one, three and ten year capital plans including the impact of rising operational and capital equipment costs
4. A detailed, written listing of the steps of the investment process including the responsibilities of the Board and management
5. A requirement for the Board to ensure that the investment policy has been implemented and is being followed. This includes a review of the provider's investment statements as well as the short and long-term capital plans at each board meeting.

If you have any questions or require any further information about creating an investment policy please your Program Coordinator.

Petty Cash Policy

Objective

Petty cash refers to a cash fund of a fixed amount that is used by the housing provider's staff to pay for small expenditures made on its behalf by its management or authorized staff that are not entered into accounts payable. The objective of a petty cash policy is to ensure that the rules concerning how, when and by who these funds can be used are documented so that management can monitor and control their use.

Purpose

Having a well-designed, complete and properly implemented petty cash policy is a best practice that will help prevent theft by ensuring that sufficient controls are in place to enable management to monitor the use of the petty cash funds.

Policy

A well designed petty cash policy must give the Board and management the tools they need to exercise adequate control over all petty cash expenditures and ensure that the petty cash funds are protected from theft. A complete petty cash policy should include:

1. A determination by the Board and management of the dollar amount of petty cash required to cover small, monthly expenses and the maximum allowable amount for these expenses
2. The identification of the one staff member who is in charge of the petty cash fund
3. A clearly defined set of controls for the petty cash process such as:
    - The requirement to submit a valid receipt which includes: the date, amount of purchase, purpose of the purchase, general ledger (GL) account to be charged, name of person who distributed the petty cash and the signature of the person receiving the petty cash
    - The reimbursement of receipts and the creation of a petty cash voucher
    - The reconciliation of the petty cash account at each month end and the submission of a cheque requisition to replenish the fund which is reviewed by management
    - Maintaining the cash balance in the fund at the same fixed amount and ensuring the petty cash expenses are recorded within the month in which they occur
4. Documentation of the process by which management reviews the petty cash receipts and account balance on a monthly basis and ensures that all steps of the process are being followed correctly and without exception

If you have any questions or require any further information about creating a petty cash policy please contact your Program Coordinator.

Purchasing and Spending Policy

Objective

The objective of a formal, written purchasing and spending policy is to ensure: management and the Board are well aware of the amount of spending taking place on behalf of the provider, that the spending has been agreed upon and authorized by the Board and the payment of all accounts payable expenses are being made on a timely basis and only to approved vendors.

Purpose

Having a well-designed, complete and properly followed purchasing and spending policy is a best practice that will help ensure the Board is well informed about what is owed by the housing provider and what has been paid by the housing provider. A sound purchasing policy is also the best way for the Board to protect the provider from fraud and unauthorized expenses and to ensure management and staff are following best practices when performing their purchasing related duties.

Policy

All good purchasing policies will contain similar essential elements but no two purchasing policies will be exactly the same. The Board and management should tailor the policy to meet the specific needs and adhere to the established policies of the housing provider. The essential elements to consider when designing a purchasing policy include:

1. The creation of spending principles/guidelines to ensure spending is done correctly. These may include:
    - Creating an approved list of suppliers, setting dollar limits to trigger management review, reviewing prices for routine purchases to find better deals and establishing a process for selecting the successful tender or bid for a project
2. Clearly established spending limits (specific dollar amounts), signing authorities (specific individuals) and approval processes for: mandatory, discretionary, emergency and capital expenses
3. A determination of who the Board will authorize to: initiate expenses, enter into contracts, approve purchase orders and tenders and approve the payment of expenses
4. A documented outline of the entire purchasing process with step by step details

If you have any questions or require any further information about creating a purchasing and spending policy please contact your Program Coordinator.

Household Collection and Arrears Policy

Objective

A good collection and arrears policy should ensure collection processes are applied fairly and equally to all households with the basic goals of preventing evictions, reducing bad debts and preventing arrears amounts from growing to the point that it is difficult for the households to catch up on paying the amount they owe.

Purpose

A complete arrears policy should: aim to prevent situations where a household's rent becomes uncollectible, focus on preventing households from accumulating high amounts of arrears and ultimately losing their homes, ensure RGI and Market households are treated equally and reduce the housing provider's bad debt amounts.

Policy

A complete arrears policy should include the elements outlined below. This is not an exhaustive list. The Board and management should tailor the housing provider's collections and arrears policy to suit their specific situation and needs. The essential parts of a collection and arrears policy include:

1. A process to post and record housing charge payments on a monthly basis
    - This makes it easy for management and staff to note which members/tenants have paid their rent on time and which have missing or incorrect payments. It also provides the opportunity to deal with any issues before the past due amount gets out of control and turns into bad debt.
2. Clearly established payment due dates that have been communicated to all households
    - Households are normally required to pay their rent on the first of each month
3. The creation/generation of an aged arrears report by management or staff
    - This report will enable management to easily identify past any due amounts which require follow up and should be reviewed monthly
4. A determination of when a household's payment is considered to be in arrears
    - This must be a specific amount of time that is applied to all households whether RGI or Market and must be written down as part of the collection and arrears policy
5. An outline of the steps required to collect arrears if the tenant member is unable to make their rent payment

If you have any questions or require any further information about creating a collection and arrears policy please contact your Program Coordinator.

E-Transfer Payment Policy

Objective:

An Interac e-Transfer or Email Money Transfer (EMT) is a type of financial transaction where funds are transferred electronically between two bank accounts by using a combination of email and online bank accounts. The process involves the sender setting up an account for the recipient, entering the amount to be transferred and if the recipient does not have automatic or direct deposit set up for e-Transfers, setting up a security question that the recipient must answer correctly to complete the transfer of funds. The sender then emails the answer to the security question to the recipient by a separate email. Once the recipient correctly answers the security question the funds are deposited to their account. The objective of a "no e-Transfer policy" is to reduce the Provider's exposure to potential fraud and ensure the accuracy of the Provider's financial records by limiting the payment and receipt of funds to methods and processes protected by established internal controls and are not exposed to the potential for fraud associated with email transactions.

Purpose:

Having a clearly stated policy of not accepting payment by e-transfer is a best practice that will help the Provider reduce their exposure to potential fraud and help prevent the potential misapplication of payments by ensuring all payments are made through processes which have established internal controls such as payment by cheque, debit card or pre-authorized payment. Internal controls enable management to monitor incoming and outgoing payments and prevent processing errors by ensuring the funds are applied to the correct accounts. The use of traditional payment methods also eliminates the potential for fraudulent activity related to emails such as phishing.

Policy:

Although e-Transfers are convenient and seemingly protected by the creation of a security question during the online payment process they are, by their nature, susceptible to fraud (especially if automatic or direct deposit is not available at the recipient's banking institution) through phishing campaigns or the redirection of emails or funds to accounts controlled by fraudsters. Using traditional methods of payment with establish payment application processes also helps to reduce clerical or bookkeeping errors. Similar to a policy of not accepting cash payments, a well-designed e-transfer policy is one that discourages the use of e-Transfers as an acceptable form of payment. A clearly stated and well communicated policy which classifies e-Transfers an unacceptable form of payment will assist management in persuading members/tenants and suppliers to use or accept alternate forms of payment such as cheque, debit or pre-authorized payments which are secured by the Provider's internal controls. A complete e-Transfer policy should include;

1. A policy of "no payments by e-Transfer" should first be approved by the Board.
2. As with a "no cash" policy, once approved by the Board, all tenants/members as well as suppliers must be made aware of the "no payment by e-Transfer" policy as well as the alternative acceptable methods of payment.
3. In case a situation arises where no alternate form of payment other than an e-Transfer is possible, a set of clearly defined requirements should be established to ensure these payments are a secure as possible. These requirements should include; o The Provider should establish an email account in their name that is used solely for the receipt of e-Transfers.
   - o The email account should be restricted and monitored and accessible to as few people as possible (property manager and Treasurer)
   - o The automatic or direct deposit of funds being received by e-Transfer should always be used if offered by the Provider's bank.
   - o If the direct deposit of funds is not available, then a security question should be used by the sender and the answer should be sent by a separate email to the Provider's designated e-Transfer email account.
   - o All e-Transfers identified by management and the Treasurer during the monthly review of the bank account reconciliation should be examined in detail and brought to the attention of the Board for review at the monthly Board meeting.
4. Documentation of the review process for all e-Transfer transactions by management and the Treasurer should be created to ensure all required steps are followed to further prevent any opportunity for fraud, misclassification, or incorrect application of e-Transfer payments.

If you have any questions or require any further information about creating a e-Transfer payment policy, please contact your Program Coordinator who is always ready to assist you.

12 Resources

Annual Subsidy Estimate Submission - Required Documents

In order for the Region to complete the analysis of the annual subsidy estimate submission and return the approved subsidy estimate amounts to the Board in a timely manner certain documents are required in addition to a completed Subsidy Estimate Template. A list of this additional documentation has been included below as a resource for the Board and property managers to use to ensure that all required documentation has been included in their annual subsidy estimate submission which is due to the Region three months prior to the start date of the Provider's fiscal year.

Submitting all required documentation by the submission deadline will reduce the amount of follow up and processing time required for the review of a Provider's submission and enable the Region to issue the approved subsidy estimate letter to the Board as soon as possible so that the approved subsidy amounts can be included in the Provider's financial settlements for reporting and spending guidelines.

Required Documentation for Annual Subsidy Estimate Submission

The following documents should be included with the subsidy estimate submission which is due to the Region three months prior to the start date of the Provider's fiscal year:

- ☐ A completed subsidy estimate template for the upcoming fiscal year which includes: projected market rents, a breakdown of the anticipated number of RGI units by unit type and an estimate of the total revenue to be received from the RGI tenants/members
- ☐ Board approved minutes detailing the market rents for the upcoming fiscal year
- ☐ A current rent roll in Excel format
- ☐ A final tax bill for the current fiscal year
- ☐ A current list of the Board of Directors

If you have any questions or require any further information about the annual Subsidy Estimate submission or the required documentation please contact your Program Coordinator.

Year-end Settlement Submission - Required Documents

In order for the Region to complete the annual year-end settlement review as accurately and efficiently as possible, certain documents are required in addition to the signed (original) audited financial statements and the signed Annual Information Return (AIR). A list of required documentation has been included below as a resource for housing providers (the Board) and property managers to use to ensure that all required documentation has been included in their year-end submission, which is due to the Region five months after the fiscal year-end date.

Submitting all required documentation by the submission deadline will reduce the amount of follow up and processing time required for the review of a Provider's submission and enable the Region to issue the year-end settlement letter and approved AIR in a timely manner to the Board for their review.

Required Documentation for Year-end Settlement Submission

The following documents should be included with a Provider's year-end submission, which is due five months after the fiscal year-end date:

- ☐ The original, audited year-end financial statements signed by two Board members
- ☐ The original AIR signed by the Board
- ☐ The "Accountants' Report on Applying Specified Auditing Procedures in Respect of the AIR" completed by the auditors as part of the year-end audit
- ☐ A completed 12 month rent roll (in Excel format) for the fiscal year that identifies households by unit type and rent type (Market, RGI or vacant) and whose rent and vacancy loss totals match both the financial statements and the AIR
- ☐ A listing of all units identified as RGI paying Market rent for the fiscal year
- ☐ A copy of the most recent Capital Reserve investment statement
- ☐ The management letter(s) received by the Board from the Auditors highlighting any deficiencies identified during the year-end audit (if applicable)

If you have any questions or require any further information about the year-end settlement submission or the required documentation please contact your Program Coordinator.

Bank Reconciliation Statement

XLSX [Download template](#)

Housing Provider Name

Bank Name

Chequing Account No: 123-456789-00

Bank Reconcilation Statement

						Note Reference
Balance per Bank Statement 08/31/2024					**155,077.28**	(1)
Add:	**Deposits in Transit**					
	2024-08-30		HST	3,442.67	3,442.67	(4)
Deduct:	**Outstanding Cheques**					
	2024-08-24	2847	Property Insurance	1,321.28		(3)
	2024-08-24	2848	Bobs Fuel	644.00		
	2024-08-24	2849	Green Mechanical	414.00		
	2024-08-24	2850	Safety & Training Services	598.90	(2,978.18)	
	Adjusted Bank Balance (A)				**155,541.77**	
Balance per General Ledger 08/31/2024					111,990.83	(2)
Add:	**Unrecorded deposits/credits:**					(8)
	Deposits					
	2024-08-01		Tenant/Member deposits	57,281.98		
	2024-08-04		Laundry Income	1,038.34		
	2024-08-16		Tenant/Member deposits	3,675.77	61,996.09	
	Interest earned on bank balance				1,119.91	(6)
Deduct:	**Cheques and Payments**					
	2024-07-31	2810	Flowers Landscaping	1,218.00		
	2024-08-12	2839	Hydro billing	6,342.18		
	2024-08-12	2840	Bell Canada	218.45		
	2024-08-12	2841	Home Depot	1,641.66		
	2024-08-12	2842	Toms Electric	348.90		
	2024-08-16	2843	HiRise Roofing	2,341.12		
	2024-08-16	2844	Sparkling Windows	218.00		
	2024-08-16	2845	City Property Taxes	6,452.00		
	2024-08-16	2846	Waste Systems	868.00	(19,648.31)	
Deduct:	Bank Fee				58.25	(5)
	NSF Cheques				25.00	
	Adjusted Balance per General Ledger (B)				**155,541.77**	
	Variance (A-B)				**0.00**	

Prepared By ______________________ Name/Title ______________ Date

Approved By ______________________ Name/Title ______________ Date

Bank Reconciliation - Why it Matters

1. **Bank Statement Balance:**
   - ☐ Compare the ending balance on the bank statement with the starting point of your reconciliation.
   - ☐ Why It Matters: This ensures you are starting with the correct figure from the bank.
2. **Book Balance:**
   - ☐ Verify the ending balance in your accounting records.
   - ☐ Why It Matters: This is the balance according to your books, which should match the bank's records after reconciliation.
3. ☐ **Outstanding cheques:**
   - ☐ List cheques that have been issued but not yet cleared by the bank.
   - ☐ Why It Matters: These cheques reduce your book balance but are not yet reflected in the bank statement.
4. **Deposits in Transit:**
   - ☐ Identify deposits recorded in your books but not yet shown on the bank statement.
   - ☐ Why It Matters: These deposits increase your book balance but are not yet reflected in the bank statement.
5. **Bank Fees:**
   - ☐ Look for any bank fees or charges deducted from the bank statement but not recorded in your books.
   - ☐ Why It Matters: These fees reduce your bank balance and need to be accounted for in your books.
6. **Interest Earned:**
   - ☐ Include any interest earned that appears on the bank statement but not yet in your books.
   - ☐ Why It Matters: This interest increases your bank balance and should be recorded in your books.
7. **Errors:**
   - ☐ Spot and correct any mistakes in the bank statement or your records.
   - ☐ Why It Matters: Errors can cause discrepancies between your book balance and the bank statement.
8. **Unrecorded Transactions:**
   - ☐ Why It Matters: Missing transactions can lead to an inaccurate book balance.
9. **Adjustments:**
   - ☐ Make necessary adjustments for any differences found during the reconciliation process.
   - ☐ Why It Matters: Adjustments help align your book balance with the bank statement.
10. **Reconciliation Report:**
    - ☐ Prepare a report that documents all adjustments and ensures the adjusted bank balance matches the book balance.

Treasurer's Checklist

XLSX [Download template]

Treasurer's Checklist

Initial	#	Bank Reconciliations			
☐	1	Does the reconciliation agree to the bank statement and include a monthly payment register	☐ Y	☐ N	
☐	2	Does the reconciliation agree to the balance on the Statement of Financial Position (operation & capital account)	☐ Y	☐ N	
☐	3	Are all payments authorized and cheques signed as required	☐ Y	☐ N	
☐	4	Have any of the cheques that cleared the bank appear altered	☐ Y	☐ N	
☐	5	Pre-authorized / Electronic fund payments are supported with an invoice	☐ Y	☐ N	☐ NA
☐	6	Credit card statement reconciliation completed	☐ Y	☐ N	☐ NA
		Investment Reconciliations			
☐	6	Capital Reserve Quarterly Investment Statements *Mar, Jun, Sep, Dec* agree to the Balance Sheet	☐ Y	☐ N	
☐	7	Do all other investment statements agree to the Balance Sheet	☐ Y	☐ N	☐ NA
		Manager's Report			
☐	8	The Board has received a current Property Management Report	Date of Report		
☐	9	The report includes balances for capital reserves, capital investments, accumulated surplus, current year surplus	☐ Y	☐ N	
☐	10	The report includes a Balance Sheet, Statements of Income & Expense and detailed list of Capital Expenditures	☐ Y	☐ N	
☐	11	The Statement of Income & Expense reports the current month and year to date expenses in comparison to the budget	☐ Y	☐ N	
☐	12	The report includes a detailed list of vacancies including length of vacancy and classification (RGI / Market)	☐ Y	☐ N	
☐	13	The report includes current detailed Aged Payables Report	Date of Report		
☐	14	The report includes current detailed Aged Arrears Report	Date of Report		
☐	15	Are details on all outstanding Arrears balances, repayment agreements and any other pertinent information provided	☐ Y	☐ N	☐ NA
		Other			
☐	16	The Operating Budget & Capital Budget have been or will be submitted to the Board (note month presented to the Board)	Month		
☐	17	The report includes a Cash Flow forecast to year end	☐ Y	☐ N	☐ NA
☐	18	The budget is not in a deficit position	☐ Y	☐ N	

Name: ______________________

Signed ______________________ ____________

Treasurer or other Board Representative *Date*

Annual Rent Roll Template

XLSX [Download template]

NON PROFIT HOUSING CORPORATION
mm/yy= 01/2019 - 12/2019
Account - Housing Charge by Tenant

Unit	Unit Type	1/1/2019 Month1	2/1/2019 Month2	3/1/2019 Month3	4/1/2019 Month4	5/1/2019 Month5	6/1/2019 Month6	7/1/2019 Month7	8/1/2019 Month8	9/1/2019 Month9	10/1/2019 Month10	11/1/2019 Month11	12/1/2019 Month12	Total
1	2 BED	05	05	85	05	85	85	235	235	235	235	235	235	1,920
2	2 BED	95	95	95	95	95	85	95	95	95	95	95	85	1,020
3	2 BED	85	85	85	85	85	85	85	85	85	85	85	85	1,020
4	2 BED	110	110	110	110	110	110	110	110	110	110	110	110	1,320
5	2 BED	115	115	115	115	115	115	115	115	115	115	115	115	1,380
6	2 BED	120	120	120	120	120	120	120	120	120	850	850	850	3,630
7	2 BED	125	125	125	125	125	125	125	125	125	Vacant	Vacant	Vacant	1,125
8	2 BED	150	150	150	150	150	150	150	150	150	150	150	150	1,800
9	2 BED	240	240	240	240	240	240	240	240	240	240	240	240	2,880
10	2 BED	380	380	380	380	380	380	380	380	380	380	380	380	4,560
11	2 BED	420	420	420	420	420	420	420	420	475	475	475	475	5,260
12	2 BED	520	520	520	520	520	520	520	520	520	520	520	520	6,240
13	2 BED	850	850	850	850	850	850	850	850	850	850	850	850	10,200
14	2 BED	850	850	850	850	850	850	850	850	850	850	850	850	10,200
15	2 BED	850	850	850	850	850	850	850	850	850	850	850	850	10,200
15														
1	3 BED	85	85	Vacant	Vacant	125	125	125	125	125	125	125	125	1,170
2	3 BED	05	05	05	05	05	05	Vacant	Vacant	Vacant	925	925	925	3,205
3	3 BED	85	85	85	85	95	85	85	85	85	95	95	85	1,020
4	3 BED	180	180	180	180	180	180	180	180	180	180	180	180	2,160
5	3 BED	380	380	380	380	380	380	380	380	425	425	425	425	4,740
6	3 BED	480	480	480	480	480	480	480	480	480	480	480	480	5,760
7	3 BED	525	525	525	525	525	525	525	525	525	525	525	525	6,300
8	3 BED	660	660	660	660	660	660	660	660	660	660	660	660	7,920
9	3 BED	775	775	775	775	775	85	85	85	85	85	85	85	4,470
10	3 BED	940	940	940	940	940	940	940	940	940	940	940	940	11,280
11	3 BED	965	965	965	965	965	965	965	965	965	965	965	965	11,580
12	3 BED	980	980	980	980	980	980	980	980	980	980	980	980	11,760
13	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
14	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,100	1,100	1,100	1,100	1,100	1,100	12,600
15	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
16	3 BED	1,000	1,000	Vacant	Vacant	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	10,800
17	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
18	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	525	525	525	525	10,100
19	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
20	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	415	415	415	415	415	415	8,490
21	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
22	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	Vacant	Vacant	1,000	1,000	10,000
23	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,100	1,100	1,100	1,100	12,400
24	3 BED	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
25	3 BED	1,000	1,000	1,000	Vacant	Vacant	Vacant	1,000	1,000	1,000	1,000	1,000	1,000	9,000
25														
Market Vacancies														
16	3 BED			1,000	1,000									2,000
25	3 BED									1,000	1,000			2,000
30	3 BED				1,000	1,000	1,000							3,000
		24,125	**24,125**	**24,040**	**24,040**	**24,265**	**23,575**	**23,155**	**23,155**	**22,080**	**24,410**	**24,410**	**24,410**	**206,590**

* Gross Occupancy must align with audited financial reports and annual information return
* Annual rent roll must be submitted with financial reporting requirements (variance must be zero)

Gross Occupancy Revenue (Page A4 of AIR, line 504) $ 206,590

Variance $ -

Cash Flow Template

Download template

Non Profit Housing Provider

Cashflow Analysis

New Fiscal Year

	Ending Balance 31-Dec-19	Actual 31-Jan-19	Actual 28-Feb-19	Actual 31-Mar-19	Actual 30-Apr-19	Projected 31-May-19	Projected 30-Jun-19	Projected 31-Jul-19	Projected 31-Aug-19	Projected 30-Sep-19	Projected 31-Oct-19	Projected 30-Nov-19	Projected 31-Dec-19	Total Actuals	Annual Budget
Opening Bank Balance	325,000	300,000	-	-	-	-	-	-	-	-	-	-	-		
Capital Reserve	135,000	-	-	-	-	-	-	-	-	-	-	-	-		
		300,000	-	-	-	-	-	-	-	-	-	-	-		
Cash receipts:															
Housing Charge Revenue		20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000	250,000
Region Subsidy		8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	100,000	100,000
RGI Overpayment Recovery		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Payments due:															
CMHC Mortgage		0	0	0	0	0	0	0	0	0	0	0	0	0	(76,000)
Management Fee		0	0	0	0	0	0	0	0	0	0	0	0	0	(18,000)
Property Tax Payments		0	0	0	0	0	0	0	0	0	0	0	0	0	(25,000)
Insurance		0	0	0	0	0	0	0	0	0	0	0	0	0	(15,000)
Operating expense		0	0	0	0	0	0	0	0	0	0	0	0	0	(20,000)
Contracted Maintenace		0	0	0	0	0	0	0	0	0	0	0	0	0	(22,000)
Contracted Elevator		0	0	0	0	0	0	0	0	0	0	0	0	0	(10,000)
Contracted Grounds		0	0	0	0	0	0	0	0	0	0	0	0	0	(18,000)
Contracted Security		0	0	0	0	0	0	0	0	0	0	0	0	0	(7,000)
Gas		0	0	0	0	0	0	0	0	0	0	0	0	0	(2,500)
Water/Sewer		0	0	0	0	0	0	0	0	0	0	0	0	0	(32,000)
Hydro		0	0	0	0	0	0	0	0	0	0	0	0	0	(8,500)
Admin expenses		0	0	0	0	0	0	0	0	0	0	0	0	0	(16,000)
Transfer to Capital Reserve														0	(73,854)
Projected Ending Bank Balance		329,167	29,167	29,167	29,167	29,167	29,167	29,167	29,167	29,167	29,167	29,167	29,167		
														0	(343,854)
Actual Ending Bank Balance	325,000	0	0	0	0	0	0	0	0	0	0	0	0	350,000	6,146
Outstanding Cheques	(25,000)	0	0	0	0	0	0	0	0	0	0	0	0		
Bank Balance per Financials	300,000	0	0	0	0	0	0	0	0	0	0	0	0		

Deficit Reduction Template

Download template

Non Profit Housing Provider

# of Units

FISCAL YEAR ENDING: XXXX	ACTUALS PER AUDITED STATEMENT 2015	2016	2017	2018	2019 Unaudited Actuals	2020 Approved Budget	% Increase	2021 Projected Budget	% Increase	2022 Projected Budget	% Increase	2023 Projected Budget
Market Tenants (Net of Vacancy Loss)												
RGI Tenants												
Subsidy - calculated per Subsidy Estimate												
Interest income												
Net Non-Rental												
Total Revenues	$0	$0	$0	$0	$0	$0		$0		$0		$0
EXPENDITURES												
Administrative Overhead (Schedule) *	$0	$0	$0	$0	$0	$0		$0		$0		$0
Amortization of Capital Costs												
Allowances for vacancies/bad debts *												
Insurance *												
Mortgage Interest												
Materials and Services (Schedule) *	0	0	0	0	0	0		0		0		0
Municipal Taxes												
Transfer to Capital Reserve Fund								0				
Utilities (Schedule)	0	0	0	0	0	0		0		0		0
Severence Benefits	0	0	0	0	0	0						
Total Expenditures	$0	$0	$0	$0	$0	$0		$0		$0		$0
Shelter Surplus	0	0	0	0	0	0		0		0		0
Sector Support												
NET SURPLUS (DEFICIT) CURRENT	$0	$0	$0	$0	$0	$0		$0		$0		$0
Opening Accumulated Surplus/(Deficit)		0	0	0	0	0		0		0		0
Prior year adj - transfer to Capital Reserve		0	0	0	0	0		0		0		0
Current Year Surplus/(Deficit)	0	0	0	0	0	0		0		0		0
ACCUMULATED SURPLUS/(DEFICI	$0	$0	$0	$0	$0	$0		$0		$0		$0
Manageable Cost Per Unit *	$0	$0	$0	$0	$0	$0		$0		$0		$0
ADMINISTRATIVE OVERHEAD												
Salaries Wages and Benefits												
Management Fees (Contracted Admin)												
Materials and Services												
Professional Fees (Legal / Audit Fees)												
Transportation & Communication												
Other (Memebership Dues)												
TOTAL	$0	$0	$0	$0	$0	$0		$0		$0		$0
MATERIALS AND SERVICES												
Building & Equipment												
Electrical Systems												
Grounds												
Heating & Plumbing												
Painting												
Security												
Waste Removal												
Contracted Maintenance												
TOTAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00		$0.00		$0.00
UTILITIES												
Hydro												
Fuel												
Water & Sewage												
TOTAL	$0	$0	$0	$0	$0	$0		$0		$0		$0
CAPITAL RESERVE FUND												
Beg. Balance: Cash & Investments		0	0	0	0	0		0				
Beg. Balance: Receivable from (to) Operations												
Add: Mandatory Contribution per Estimate							1.866%	0				
Add: Interest Income												
Add: Innovation Funding												
Less: Capital Expenditures												
Less: Adjustments												
Ending Balance	0	0	0	0	0	0		0		0		0
Cash & Investments					0	0						
Receivable from (to) Operations					0	0						
TOTAL	$ -	$ -	$ -	$ -	$ -	$ -		$ -		$ -		$ -

13 Glossary

The following is an alphabetical list of important terms covered in the guide. They are intended to be used as a quick reference to help you navigate through your housing provider's financial statements.

Accounts payable: The total amount of an organization's short-term requirements to pay suppliers for products and services which were purchased on credit. If accounts payable are not paid within the supplier's payment terms, the payables are considered to be late, which may trigger a penalty or interest payment.

Accounts receivable: Funds an organization has a right to receive because it has provided customers with goods and/or services. For a housing provider most accounts receivable includes rents receivable from residents. The rest is made up of funds due from the service manager (Innovation Funding, for example) or payments due for non-rental items like parking or laundry.

Accrual accounting: An accounting method that records revenues and expenses in the housing provider's accounts when they occur, not only when cash is exchanged. The term "accrual" refers to any individual entry in the accounting records for revenue or expense in the absence of a cash transaction.

Affordable housing (for rental housing): The lesser of housing with a rent that is affordable to low and moderate income households that is equal to or less than 30 per cent of gross household income, not including government subsidies or a unit for which the rent is at or below the average market rent of a unit in that regional market area.

Amortization: An accounting term for the act of spreading the cost of an asset over multiple periods. In the case of the provider's capital assets, the original cost of assets is spread over their estimated useful life. Each year a portion of the original cost is charged as an amortization expense on the statement of operations and is added to the accumulated amortization on the statement of financial position. The total of the accumulated amortization is then subtracted from the original cost of the capital assets to show their net book value. This is a value for accounting purposes and is not an indication of what the capital assets are actually worth if you were to sell them. For housing providers in York Region, amortization expense for the year is equal to the principal portion of the mortgage payment for the year.

Annual Information Return (AIR): Annual reporting form between housing providers and service managers (the Region) used to calculate government subsidies, track vacancies and move-outs and market and RGI targets and report statistics to the provincial government.

Annual budget: The annual budget for a housing provider is created by the Board and management. The budget projects the costs for operating a housing provider based on management's estimates of the provider's revenues (including subsidies from the Region) and expenses. The budget figures should be compared to the provider's actual results during the year in order to ensure the provider's plans for the fiscal year such as maintenance spending are being followed.

Assets: Things of value that a provider owns, benefits from, or has use of, to generate income or a surplus. Examples of assets include cash, accounts receivable, prepaid expenses, and short-term investments. The provider's assets are listed on the year-end financial statements in the statement of financial position.

Bad debt expense (bad debts): The amount of uncollectible accounts receivable that occurs in a given period. For the provider, this usually includes rents receivable from residents that are in arrears and which the provider has decided will most likely not be collected, sometimes because the resident has already moved out. Bad debt represents a loss of rental income for the provider.

Benchmarking: A management tool that compares the housing provider's performance with other providers of the same type. Benchmarking is also an important tool in the design of the HSA funding model to set acceptable operating revenues and expenses for housing providers. The use of benchmarks makes operating costs and capital reserve funding more predictable for the Region and the housing providers.

Best practices: A set of operational practices generally accepted by service managers and housing providers as being key to increased operational efficiency, and therefore worthy of being shared and copied by other housing providers where applicable.

Canada Mortgage and Housing Corporation (CMHC): The agency responsible for carrying out the current responsibilities of the federal government with regard to affordable housing. In 1999, CMHC signed the Canada-Ontario Social Housing Agreement that transferred the funding and administration of social housing, which had been developed under federal programs, into the hands of the provincial government.

Capital assets (property and equipment): There are different kinds of capital assets that make up a housing provider's property and equipment including major building components, systems, and equipment with long lives. Capital items are generally considered to be building components paid for by the mortgage. Major repairs or renovations, whose benefits extend beyond the fiscal period and cannot be paid through annual budgets, can also be considered capital items. The useful life of capital items comes to an end when the cost to repair or maintain them is no longer worthwhile because it will not extend the useful life by a reasonable length of time.

Capital expenses: Expenses paid to repair, replace or upgrade capital assets. Usually paid using the restricted funds from the capital reserve fund after an expense plan is submitted to and approved by the Region.

Capital replacements: Capital items that need to be replaced as their useful life wears out, such as appliances, flooring, etc. These items are included in the standard list of eligible items for the replacement reserve fund.

Capital reserve funds: All subsidized housing programs require a fixed amount of funds be set aside in the annual budgets and transferred to the housing provider's capital reserve fund. This fixed amount is determined by the Region and included in the Region's annual subsidy letter. The intention of the fund is to build a reserve to be used in the future for the repair, upgrade or replacement of the housing provider's larger building components. Under federal programs this fund is called the Replacement Reserve Fund.

Consumer Price Index (CPI): The CPI is a measure of the rate of price change for goods and services bought by Canadian consumers, adjusted for each province. They are published each year in the fall by the Ministry of Housing.

Co-operative Housing: The residents of a co-operative housing project are all members of the co-operative corporation that owns the building. A board of directors (elected from amongst the residents of the building) is responsible for overseeing the management of the building. Co-ops are subject to rules set out in the *Co-operative Corporations Act* and are not considered to be landlords. They are therefore not subject to the *Residential Tenancies Act.*

Financial testing: The HSA gives service managers the responsibility for funding and administration of rent-geared-to-income programs, including deciding which households are eligible for rent-geared-to-income subsidy, verifying incomes, calculating rents, and conducting annual and mid-year subsidy reviews. The HSA also permits service managers to delegate all or some of these responsibilities to housing providers. Financial testing refers to the practice of assessing eligibility for rent-geared-to-income housing based on a household's income as defined by the HSA.

Fiscal year: A housing provider's fiscal year is the 12-month period that the housing provider uses for accounting purposes and to prepare its financial statements. It may not be the same as a calendar year.

Generating a surplus: The operating subsidy formula for HSA providers with market and RGI units allows providers to generate a surplus by charging market rents, if possible, above the indexed benchmark market rent for the area, increasing non-rental revenue (parking, laundry, etc.) above the benchmark non-rental revenue (as this item is not indexed each year in the subsidy calculation), and keeping expenses below the indexed benchmark expenses.

Housing Services Act, 2011* (HSA)*: This legislation replaced the *Social Housing Reform Act* on January 1, 2012. It preserves the administrative and funding responsibility for housing with service managers within a more flexible framework.

Internal controls: Processes created and put in place by management and the Board that are intended to help protect the housing provider's assets from theft and fraud and help assure the organization achieves effectiveness and efficiency in its operations, reliable financial reporting, as well as compliance with laws, regulations and policies of the various government organizations the housing provider reports to and the community in which it operates.

Internal transfer: The transfer of a household from one unit to another within the same project or to another project owned by the same housing provider.

Indexed benchmarks: Housing provider benchmarks that change each year based on index numbers released by the Ministry of Housing. The indexing process involves multiplying the previous year's benchmark by the index number for the current year, which will increase or decrease the benchmark depending on whether the category it represents (benchmark rents, operating expenses and capital reserve contribution) has experienced an overall increase or decrease compared to the prior year (according to CPI published by Statistics Canada).

Liabilities: A legal obligation to pay a specified amount to another entity. Liabilities are incurred to fund the ongoing activities of the provider. Examples of liabilities include accounts payable, accrued expenses, wages payable and taxes payable. The provider's liabilities are listed in the statement of financial position.

Local Housing Corporations: A new corporation created by the *Social Housing Reform Act* and controlled by the service manager as sole shareholder, to take over the ownership and other responsibilities of Local Housing Authorities (LHAs).

Mandate: The official designation of a housing provider in terms of the particular groups in society that it houses (e.g. seniors, hard-to-house, families, youth, those with physically disabilities).

Market rent ("non-RGI" rent): Market rent is the monthly amount for which a unit could be rented in the private market.

Ministry of Municipal Affairs and Housing (MMAH): The (former) Ontario Ministry of Municipal Affairs and Housing. This ministry had the lead role in designing and implementing the *Housing Services Act* and the *Residential Tenancies Act*. They continue to be responsible for ensuring the Acts are administered appropriately (as the current Ministry of Housing).

Mortgage: The loan amount borrowed to cover the cost of development. Many mortgages also include the cost of the prepaid land lease. The mortgage must be repaid over the number of years the money was borrowed for, which is the amortization period.

Net book value: Net book value is the amount that a provider shows for its capital assets (property and equipment) on the statement of financial position. This amount is equal to the original cost of the capital assets minus the accumulated amortization from the years that the assets have been used. Net book value is for accounting purposes and is not an indication of the capital assets' value on the open market.

Non-profit housing: Community-based affordable rental housing provided by non-profit corporations (housing providers) which are overseen by a volunteer Board of Directors. A percentage of non-profit housing residents pay rents geared to their incomes (known as RGI housing), and the remaining pay market rents. The percentage of residents paying RGI can range from 25 to 100 per cent of residents in a building or community. The most common ratio is 60 per cent RGI and 40 per cent market rent.

Non-rental revenue: A housing provider's revenue from sources other than housing related rents. Non-rental revenue includes income from the housing provider's investments, laundry facilities and parking.

Non-shelter expenses: Expenses that are not related to housing operations and cannot be funded by housing subsidies. Non-shelter expenses must be shown separately from shelter expenses on the financial statements.

Non-shelter revenue: Revenue generated from activities other than housing operations. Non-shelter revenue must completely cover all operating expenses. Non-shelter revenue must be shown separately from shelter revenue on the financial statements.

Ontario Community Housing Assistance Program (OCHAP): A rent supplement program that provides RGI assistance to allow private non-profit Housing Providers (PNPs) funded under the federal Sec. 95 program to house low-income residents over and above the number that could be subsidized by relying on federal program assistance alone. This program is now funded and administered by service managers like York Region. The HSA rules for eligibility, rent calculation, and use of the centralized wait list system apply to these units.

Ontario Non-Profit Housing Association (ONPHA): The organization that represents non-profit housing providers in Ontario.

Operating agreement: A contract signed between a government agency and a housing provider that sets out funding, operating, and other responsibilities of the parties.

Operating subsidy: A government subsidy under the *Housing Services Act* paid to social housing providers and guaranteed for the life of a mortgage (usually 35 years). The operating subsidy is meant to bridge the gap between revenue from indexed benchmark market rents and benchmark non-rental revenue, and the cost of mortgage, property taxes, and indexed benchmark operating costs.

Over-housed (residents): A term that applies to rent-geared-to-income (RGI) housing and refers to residents who are housed in a unit that is larger than the unit they qualify for (due to the number of individuals in the household) under provincial occupancy standards. These residents are required to move to a unit size that they qualify for.

Pooling of capital reserves: Mandatory investment of capital reserve funds with SHSC Financial Inc. that applies to all housing providers who fall under the HSA. The pooling of capital reserves is part of the activities of the Housing Services Corporation, but is governed by a separate independent corporation with its own Board of Directors.

Prepaid expense: Future expenses that have been paid in advance and considered assets until they come due (expire) at which time the balance of the prepaid account is reduced. For example, if insurance for the year is paid in advance in January then the amount of the insurance for February to December is treated as an asset. As each month goes by this asset is reduced by the monthly amount of the insurance that has "expired." The amount of prepaid expenses that have not yet expired are reported on the provider's statement of financial position in the asset section.

Property tax subsidy: A component of the government subsidy paid to housing providers under the *Housing Services Act* along with the operating subsidy and the RGI subsidy. It is equal to the amount of the housing provider's actual property taxes for the year.

Public housing: Housing developed mostly by the Ontario Housing Corporation (OHC) in the 1960s after the Canada Mortgage and Housing Corporation's mandate broadened to housing for low-income families. Managed by local housing authorities with local Boards, OHC set policy and provided services. The projects were 100 per cent rent-geared-to-income housing and tended to be large high-rise buildings built in large urban centers. Ownership was downloaded from the Province to the municipal service managers (like York Region) in 2001.

Rent-geared-to-income (RGI) or rent subsidy: The subsidy paid to a housing provider named under the *Housing Services Act* to allow a defined number of units to be rented to low-income residents on a rent-geared-to-income basis. The RGI subsidy is the difference between the actual geared-to-income rents paid by residents (paying approximately 30 per cent of their income) and the indexed benchmark rents or actual market rents for their units, whichever is lower.

Rent/Housing charge roll (rent roll): A rent/housing charge roll lists the residents in each unit and the rent for each unit. The tenant ledger shows whether the rent is paid every month, when and how rent is paid, and how much rent has been paid. The roll and tenant ledger enable housing providers to monitor and control arrears and track rent/housing charge contributions, which affect cash flow, the annual budget and subsidy payments.

Rent receivable: A statement of financial position (balance sheet) asset account which shows the amount of rent that has been earned and is due to the provider, but for which the money has not yet been collected.

Rent revenue: A statement of operations (income statement) account that shows the total amount of rent that has been earned by the provider over a period of time.

Restricted assets: Cash and investments that can only be used for certain purposes because their use has been restricted by separate authority, like the Region. A good example of a housing provider's restricted assets is its capital reserve funds. The Region has restricted the use of these funds to ensure that they are available for major repairs, upgrades and replacements of the provider's capital assets. These funds can only be used after a work plan has been submitted to and approved by the Region.

Resident's deposits or prepaid rent: The deposits paid by residents such as last month's rent or security deposits. These must be refunded, less any money owing to the housing provider. They are therefore considered liabilities.

***Residential Tenancies Act* (RTA):** The provincial legislation that replaced the *Tenant Protection Act* and that governs the relationship between landlords and residential residents in Ontario. Social housing is exempt from a few of its provisions (including the guideline for rent increases) but not others (including the processes for evictions).

Service agreement: The agreement between the Region and the housing provider which delegates some or all of the service manager's responsibilities for the financial testing of RGI residents.

Service manager: Under the HSA, the term refers to the municipal or regional level of government that administers funds and sets local rules for subsidized housing in place of the province.

Shelter revenue and expenses: The expenses related to the provider's housing operations, including all revenues and expenses directly related to renting and operating the buildings, grounds and facilities for both RGI and market residents. This includes all repairs, maintenance and improvements for these buildings and facilities.

Social housing: Housing that is community sponsored by local faith groups, service clubs, YMCAs, other community organizations, or by municipalities. Social housing is technically defined as non-profit rental or co-operative housing funded by a legally-prescribed government program.

Social Housing Apartment Improvement Program (SHAIP): A four-year program introduced in 2017 to fund energy-efficient upgrades to social housing apartments. The program supports the Province's Climate Change Action Plan.

Social Housing Apartment Retrofit Program (SHARP): A program introduced in 2016 and funded through the Ontario Green Investment Fund to finance retrofits that aim to reduce greenhouse gas emissions in social housing apartment buildings.

Social Housing Electricity Efficiency Program (SHEEP): A program introduced in 2016 as part of Ontario's Climate Change Strategy that provides funding to improve electrical efficiency in single-family social housing homes, which are typically found in Ontario's smaller or rural communities.

Social Housing Improvement Program (SHIP): A component of the Social Infrastructure Fund (SIF) introduced in the 2016 Federal Budget that provided funding for improvements to social housing. Service managers were responsible for identifying eligible projects and applying for funding.

Social Housing Renovation and Retrofit Program (SHRRP): A Federal/Provincial capital grant program introduced in 2009 to provide funds for social housing repair and energy efficient retrofits for eligible housing projects.

Special needs unit: A unit that is occupied by or made available for occupancy by a household having one or more individuals who require accessibility modifications or provincially-funded support services in order to live independently in the community.

Stakeholders: An individual or group of individuals who have an interest in an organization and can affect or are affected by the organization's actions, objectives and policies. A housing provider's stakeholders include its members, its residents and the service manager and/or government.

Statement of financial position: The statement of financial position, also called the balance sheet, is a financial statement that reports the assets, liabilities, and net assets of a housing provider on a given date.

Statement of operations: The statement of operations, also called the income statement, summarizes a provider's revenues and expenses over the entire reporting period.

Target plan: Sets out the number of market and rent-geared-to-income units a housing provider is required to have. Housing providers must make every effort to achieve and maintain their target plans.

Tenant/Member Arrears Database/Form: A Province-wide arrears database, established to allow housing providers to verify applicant eligibility by checking for former resident/member arrears. The database is intended to assist housing providers collect arrears from households who re-apply for RGI assistance. The database is updated by completing and submitting the Former Tenant/Member Arrears Form which is available from the Housing Access Unit (HAU).

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