



Date: May 30, 2017

Report to: Board of Directors
CityHousing Hamilton

Submitted by: Tom Hunter,
Chief Executive
Officer/Secretary

Prepared by: Rochelle Desouza,
Chief Financial Officer

Subject: **Audited 2016 Financial Report for CityHousing Hamilton
(Report #17015)**

RECOMMENDATION:

That the Board of Directors authorize the President and Vice-President to execute:

The Final 2016 Financial Report for CityHousing Hamilton as audited by KPMG LLP,
Chartered Accountants.

A handwritten signature in blue ink that reads "Tom Hunter".

Tom Hunter
Chief Executive Officer/Secretary

BACKGROUND:

The Corporation's Auditor, KPMG, has audited the Draft 2016 Financial Statements for CityHousing Hamilton (Appendix A). The report includes three key financial reports:

Statement of Financial Position – summarizes the financial balances as at December 31, 2016.

Statement of Operations and Changes in Fund Balances – details operating results for the fiscal year ending December 31, 2016.

Statement of Changes in Financial Position – outlines the sources and uses of funds and explains any changes in cash or working capital.

Statement of Operations and Changes in Fund Balances

Consolidated operating results show a net surplus of \$79,605 compared to a budgeted surplus/deficit of zero, resulting in a net favourable variance of \$79,605. The main variance items relate:

- Operating Revenue – Unfavourable variance of (\$16k)
- Service Manager Subsidies – Unfavourable variance of (\$958k)
- Other (Antenna fees, Energy Rebates, Parking, Interest etc.) – Favourable Variance of \$819k
- Amortization of Deferred Contribution (Grant) – Not budgeted Favourable Variance of \$779 *
- Administration(Salaries & Benefits) – Favourable variance of \$510k
- Administration(Bad Debts) – Unfavourable variance of (\$206k)
- Administration(Insurance) – Unfavourable variance of (\$76k)
- Materials & Services – Favourable variance of \$774k
- Amortization/Interest on Long term debt – Unfavourable variance of (\$393) *
- Municipal taxes – Favourable variance of \$125k
- Utilities – Unfavourable variance of (\$1,278k)

Following discussion and approval by the Board of Directors, this document requires execution by the President and Vice-President.

KPMG's Report to the Board of Directors – Communication letter of Audit Results dated May 27, 2016 (Appendix B). This document outlines the audit results and reportable matters.

Summarized main variance information from the Statement of Operations is shown below:

REVENUE-gross revenue (\$155K) unfavourable

Residential Rent – Favourable variance of \$368k. Budget is based on rent as dictated by the Service Manager. Revenue is based on what CHH has historically charged with an increase as per the Residential Tenancies Act. The number of units rented out as market higher than expected.

Commercial Rent – unfavourable variance of (\$384k) budget accounted for vacancies as revenue.

Tenant recoveries – Favorable variance of \$359k, actual higher than expected

Subsidy – unfavourable variance of (\$958k) due to more units being rented at market.

Other revenue – favourable variance of \$460k due to budget being based on benchmarking and receiving energy rebates in 2016.

ADMINISTRATION (SALARIES) – net favourable 510k

Salaries, wages and benefits – net favourable variance of \$510k. This is mainly due to the strategy adopted in 2016 for gapping positions, reduction in conference expenses and overall cost conciseness of supplies .

ADMINISTRATION (BAD DEBTS) – unfavourable (206k)

Bad Debt Expenses – net unfavourable variance of (\$206k). Higher than budgeted write offs. All uncollectable accounts written off till December 2015. Lean Six Sigma strategy adopted in 2016 to reduce arrears and bad debt variance.

ADMINISTRATION (INSURANCE) – unfavourable (76k)

Insurance – unfavourable of (\$76k). Budgeted amount is lower than actual as CHH had to pay a larger number of deductibles for fires/floods in 2016, some of which include 25 Towercrest, 181 Jackson, 200 Jackson, 226 Rebecca, 227 Larch.

MATERIALS & SERVICES – favourable \$774k

Materials and Services - favourable variance of \$774k. In 2016, unit turnovers, furnaces and equipment of higher value were expensed under the replace and reserve account. The budgeted figure in the replace and reserve account for unit turnovers was \$1.2 M.

AMORTIZATION/MORTGAGE INTEREST AND DEFERRED CONTRIBUTIONS– unfavourable (\$393k)

Amortization/mortgage interest shows a net unfavorable variance of (393k). In 2016 the amortization of deferred were not included in the budgets. The revenues for deferred revenue were \$779k and the expenses were \$674K. For Service Manager Portfolios the mortgages paid are a flow through and would be part of Operating Subsidy.

PROPERTY TAXES – favourable \$125k

Actual Property tax percentage was lower compared to the budgeted amount that resulted in a favorable variance of \$125k. For Service Manager Portfolios the property tax is a flow through and would be a part of the Operating Subsidy.

UTILITIES – unfavourable (\$1,278k)

Electricity	\$	(671,737)
Fuel	\$	22,236
Water	\$	(628,045)
Total	\$	<u>(1,277,546)</u>

Utility rate increases and inadequate control on how residents use energy are primary factors leading to the unfavorable variance of (\$1,278k). To address these issues, CHH will be implementing energy retrofits in 2017 which are expected to significantly reduce electricity, natural gas, and water usage in its most energy-intensive buildings. These retrofits will primarily consist of building automation systems for heating controls, efficient water fixtures, and energy efficient lighting. Capital funding for the retrofits has been secured through the province of Ontario's Social Housing Apartment Retrofit Program (SHARP) as well as through a loan from the City of Hamilton. This funding will allow CHH to implement large scale energy efficiency projects with significant energy cost savings while having a minimal impact on CHH's capital budget. Based on anticipated construction dates, these energy retrofits are expected to lower energy usage and costs marginally in 2017, and more significantly in 2018. Utility rate structures and procurement options will also be reviewed and associated cost savings opportunities will be explored.

OTHER FUNDS

The balance in our Replace and Reserve fund is \$3,785,798. This balance is representative of projects which are work in progress. CHH is in a process of developing a strategy to build back the Replace and Reserve fund .

The Sold Unit fund balance is 1,030,280 which is to be used for new construction or capital projects as directed by the Board.

MANAGEMENT LETTER

The Corporation's Auditor, KPMG, has provided a Management Letter for the 2016 audit for CityHousing Hamilton (Appendix B).

OPERATIONAL PLAN:

This report implements:

Goal 1: Create Financial Sustainability – *Ensure that CityHousing Hamilton has sufficient capital to invest in buildings to minimize the impact on City of Hamilton taxpayers.*

TH/RD

Note: numbers have been rounded and grouped for presentation.