

REPORTING TREATMENT OF SOCIAL HOUSING FINANCIAL ACTIVITIES IN THE FINANCIAL INFORMATION RETURN (FIR)

Ministry of Municipal Affairs and Housing
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INTRODUCTION

The municipal sector assumed responsibility for social housing as part of the Local Services Realignment. This report clarifies how the different forms of social housing corporations should be consolidated in the Financial Information Return. It also clarifies how certain types of long-term financing should be reported in the FIR.

The following topics are discussed:

1. **Treatment of Local Housing Corporations (LHCs), Municipal Non-Profit Housing Corporations (MNPs) and Private Non-Profit Housing Corporations (PNPs) and Co-operative Housing Corporations in the annual Financial Information Return (FIR).**
 2. **Reporting of mortgages transferred to LHCs in the FIR.**
 3. **Reporting of debentures utilized to finance public housing projects which were not transferred to LHCs but retained by the Province in the FIR?**
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1. **Treatment of Local Housing Corporations (LHCs), Municipal Non-Profit Housing Corporations (MNPs) and Private Non-Profit Housing Corporations (PNPs) and Co-operative Housing Corporations in the annual Financial Information Return (FIR).**

LOCAL HOUSING CORPORATIONS (LHCs):

The report “Financial Reporting Guidance: Social Housing Transfer to Local Housing Corporations” which was commissioned by the Ministry of Municipal Affairs and Housing and completed by KPMG in November 2000 concluded:

LHCs are Government Not-For-Profit Organizations for financial reporting purposes. Accordingly, they should apply the Canadian Institute of Chartered Accountants (CICA) accounting recommendations for not-for-profit organizations in maintaining their accounts and preparing their financial statements. The service manager in preparing their own financial statements, should consolidate the LHC line by line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances.

A copy of the report is posted on the FIR website:

<http://oraweb.mah.gov.on.ca/fir/welcome.htm>

Reporting Treatment of LHCs in the FIR:

Municipalities served by a District Social Services Administration Board will consolidate Local Housing Corporations on a proportional basis. The rules for consolidating Consolidated Municipal Service Managers (CMSMs) will reflect the way the CMSM is organized. A CMSM which consists of one upper-tier or single-tier municipality fully consolidates the operations of the CMSM (includes LHCs) . If the CMSM consists of a county and single-tier or two upper-tiers, the method of consolidation will reflect the way the CMSM is organized and the consolidation agreement between the parties. For example, if the CMSM is organized as a joint local board, the operations of the CMSM are proportionally consolidated among the municipalities (includes LHCs).

MUNICIPAL NON-PROFIT HOUSING CORPORATIONS (MNPs):

All Municipal Non-Profit Housing Corporations are financed by mortgages serviced either by a private sector financial institution or by CMHC, acting in the capacity as a lender. As well, these mortgages are insured by CMHC, acting in the capacity as the mortgage insurer, and are fully indemnified by the province and are included in the province's contingent liability. These properties along with the related mortgage obligation have been or will be transferred to the municipal service managers.

The November 2000 report indicated that municipal financial statement preparers will need to examine the structure of any existing Municipal Non-Profit Housing Corporations that are part of the municipal reporting entity to determine whether they are accountable to the service manager and are owned or controlled by it. It is expected, given that the service manager will have authority over the municipal non-profit housing corporation's strategic financial and operating policies, either directly or through its control of the members appointed to serve as directors, that many of these organizations would be part of the reporting entity of their respective service manager and as such be consolidated with it.

Reporting Treatment of MNPs in the FIR:

The reporting treatment and consolidation rules for MNPs are the same as for Local Housing Corporations.

PRIVATE NON-PROFIT HOUSING CORPORATIONS (PNPs) AND CO-OPERATIVE HOUSING CORPORATIONS:

All private non-profit housing corporations and co-operative housing corporations are financed by mortgages serviced either by private sector financial institutions or by CMHC, acting in the capacity as a lender. As well, these mortgages are insured by CMHC, acting in the capacity as the mortgage insurer, and are fully indemnified by the province and are included in the province's contingent liability. These debt obligations rest with the providers.

The November 2000 report did not make a recommendation regarding Private Non-Profit Housing Corporations and Co-operative Housing Corporations. In most cases, these bodies are not deemed to be local boards (i.e. part of the Municipal Service Manager) and municipalities do not control or hold ownership in the organizations although they do provide funding to these organizations.

Reporting Treatment of PNPs and Co-operative Housing Corporations in the FIR:

The financial activities of Private Non-Profit Housing Corporations and Co-operative Housing Corporations should **not** be consolidated in the Financial Information Return. The payments to these organizations are however to be reported in the FIR.

2. Reporting of mortgages transferred to Local Housing Corporations in the Financial Information Return.

The Social Housing Reform Act, 2000, transferred public housing to Local Housing Corporations (LHCs). The transfer included land and buildings. Each service manager (CMSM/DSSAB) is the sole shareholder of its Local Housing Corporation. The service manager and the local housing corporation are to prepare an accountability framework which sets out the responsibilities and funding procedures between the two organizations.

The majority of public housing projects were financed by debentures. However, there are 20 projects that were funded by loans from private lending institutions and secured by mortgages. These 20 public housing projects are insured by CMHC in its capacity as a mortgage insurer. These mortgages are fully indemnified by the province and are included in the province's contingent liability. As well, ownership of the properties and the mortgage liability has been transferred to the respective local housing corporations.

Reporting Treatment in the FIR:

Mortgages transferred to Local Housing Corporations (LHCs) should be reported in the financial statements of the LHCs and reported as debt obligations by their respective service manager through consolidation of the LHC. This long-term debt should, therefore, be reported in the FIR.

3. Reporting of debentures that were utilized to finance public housing projects but were not transferred to Local Housing Corporations and retained by the Province in the Financial Information Return.

The majority of Ontario public housing projects were originally financed by debentures (“OHC debentures”). The OHC debentures were issued by Ontario Housing Corporation in favour of Canada Mortgage and Housing Corporation (CMHC). These are unsecured debentures and there is no provision allowing the province to transfer these debentures to the Local Housing Corporations or service managers.

Prior to the November 1999 execution of the Social Housing Agreement (the “Agreement”) between the Province and CMHC, the annual repayment for the OHC debentures was cost shared by the Province and the Federal Government. Under the terms of the Agreement, and as a result of the Federal Government transferring its interest and financial obligations in a portfolio of housing projects to the Province, the specific funding arrangements for the OHC debentures changed.

The *Social Housing Reform Act, 2000*, transferred ownership and responsibility for administration of public housing to LHCs. The transfer included land and buildings, which, as a specific part of the policy, were provided at no cost to the LHCs.

The OHC debentures were not assigned to or assumed by the LHCs or the municipalities when devolution became effective on January 1, 2001, and the servicing of these debentures remains the responsibility of the OHC. The province now considers the OHC debenture debt to be part of the Provincial debt.

The Province provides revenue to OHC for servicing the OHC debentures. Approximately 50% comes from federal social housing funding provided to the Province by the Federal Government. The remainder is recovered at source from federal social housing funding provided to the Province, before the balance (if any) of that federal funding is flowed through to the CMSMs (who control the LHCs).

This is consistent with the “no cost” intent of the transfer of land and buildings described above.

As the debentures are not assignable, the Ontario Housing Corporation will continue to hold the debentures. The Minister of Municipal Affairs and Housing may use federal funds to pay the principal and interest amounts due in the year. The debenture repayment amounts are to be deducted from the federal funds to meet the provincial obligation, and the net amount of federal funding is provided to the service managers.

Other provincial social housing costs billed by the Province for the most part are for operating costs and do not include the debentures retained by the Province.

Reporting Treatment in the FIR:

These debentures **should not be reflected** as debt of municipalities in the Financial Information Return.

SCHEDULES, LINES AND COLUMNS TO BE USED FOR THE 2002 FINANCIAL INFORMATION RETURN

Revenue fund expenditures for social housing which include Local Housing Corporation expenditures, Municipal Non-Profit Housing Corporation expenditures and payments to Private Non-Profit Housing Corporations and Co-operative Housing Corporations are to be reported in Schedule 40, line 1499, in the appropriate columns. Revenue fund revenues for social housing which include Local Housing Corporation revenues and Municipal Non-Profit Corporation revenues are to be reported in Schedule 12, line 1499, columns 1 through 4 where appropriate. All other revenues are to be reported in schedule 10.

Capital fund expenditures are to be reported on Schedule 52, line 1499, column 7. Capital fund revenues are to be reported on Schedule 52, line 1499, in the appropriate columns.

Social housing assets and liabilities are to be reported on schedule 70 in the appropriate asset and liability lines.