

Housing Division Notice

Date: May 26, 2009

HDN# 2009 - 147

This applicable legislation/policy is to be implemented by the housing provider(s) under the following programs:

Please note if your program is **not checked**, this change **is not applicable** to your project.

<input type="checkbox"/>	Federal Non-Profit Housing Program
<input checked="" type="checkbox"/>	Private Non-Profit Housing Program
<input checked="" type="checkbox"/>	Co-operative Non-Profit Housing Program
<input checked="" type="checkbox"/>	Municipal Non-Profit Housing Program (Pre-1986)
<input type="checkbox"/>	Local Housing Corporation

**Subject: Reporting for Audited Financial Statements and Annual Information Return
Exceptions to Generally Accepted Accounting Principles (GAAP)
(Replaces HDN# 2007- 119)**

Background:

Housing Providers are required to submit Audited Financial Statements and Annual Information Return (AIR) with supporting documentation in the form and manner approved by the Service Manger. To comply with the reporting requirements of the Service Manager, it is necessary for auditors to apply exceptions from Generally Accepted Accounting Principles (GAAP) in the preparation of the Audited Financial Statements.

On February 1, 2002, the Housing Provider Operating Agreements were terminated and replaced with the Social Housing Reform Act, 2000 (SHRA). The Service Manager continued the with the previous treatment of reporting of capital assets and amortization as mandated by the Ministry of Municipal Affairs and Housing Operating Agreements. The exception to GAAP for amortization is necessary to facilitate the correct calculation of annual subsidies in accordance with the applicable funding model. Effective fiscal years beginning October 2006 a change in accounting standards regarding recording investments at market value was implemented. The City of London Housing Division has taken the position that this principal does not provide the Housing Providers or the Service Manager with more relevant information and may interfere with other compliance issues as legislated under the SHRA.

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Action Required:

Under the authority of The Social Housing Reform Act (SHRA) Section 113 (6 & (7)), the City of London, Housing Division requires Housing Providers to submit Audited Financial Statements and the Annual Information Return (AIR) to be prepared in accordance with GAAP, with the following exceptions:

(A) Recognition of capital assets

Land, buildings and equipment in the Corporation's portfolio shall include only the costs outlined in the approved Final Capital Cost (FCC). The total amount recorded as an asset must not exceed the amount of the related mortgage loans and contributed capital, if any. Any eligible capital purchases after the initial project construction are not to be capitalized on the balance sheet and amortized over their useful lives. Rather, they should be expensed directly from the capital reserve fund, which is maintained for the purpose of future capital replacement.

(B) Amortization of original capital costs

The annual amortization of land, buildings, and equipment will be equal to the principal repaid on the related mortgage during the fiscal year. In determining the principal repaid, an accrual must be made for the amount of principal to be repaid on the first day following the Corporation's year end. This method of reporting amortization will result in a net book value of the land, buildings, and equipment equal to the mortgage balance.

(C) Unrealized gains and losses on investments

Investments are to be recorded at book value. Unrealized gains and losses on investments are not to be recognized and recorded on the books of the Housing Provider. Market value is to be only disclosed in the notes to the audited financial statements. Only realized gains and losses are to be recognized when they occur and recorded in the proper accrual period.

Implementation:

The deviations outlined above are effective immediately. Housing Providers are required to return their investments to book value immediately. Housing Providers are required to adjust investments to book value in the previous fiscal year if the annual audit has not yet been completed. Previous year's submissions already received by the City of London, Housing Division will be treated retroactively. Housing Providers must forward a copy of this HDN to their auditor for compliance.

If you have any questions or concerns regarding this Housing Division Notice, please contact the Financial Officer assigned to your portfolio.

Louise Stevens
Director of Municipal Housing

SHSC's brochure, Understanding Your Investment Account Statement, will be posted with the HDN, on the website www.housing.london.ca