

Auditors are required to use GAAP in the preparation of financial statements. Historically, housing providers were allowed to deviate from GAAP with regard to the treatment of depreciation and capital items as outlined in their operating agreements. These operating agreements were cancelled and replaced with the SHRA, which is silent on the issue of deviation from GAAP reporting. Without specific authorization to continue to deviate from GAAP, auditors would be required to default to GAAP.

Additionally, there was a change in accounting standards (CICA section 3855) regarding the recognition and measurement of financial instruments, effective for fiscal years starting from October 2006. The change in accounting standards requires non-profit organizations to record investments held for trading at market value at each period end with the increase or decrease reflected in operations (i.e. as unrealized gains or losses). Investments held until maturity (typically bonds*, GIC's, term deposits) were not impacted by this change. The Region of Peel's view is that enacting this rule could result in confusion with little or no benefit, or in some cases, a reduction in subsidy entitlement. Again, without specific authorization to deviate from GAAP, auditors would be required to default to GAAP.

*Bonds may also have a capital gain/loss component.

Deviations from GAAP

The Region of Peel is directing social housing providers to deviate from GAAP reporting for depreciation, capital items and unrealized gains/losses. The procedure to be used is outlined as follows:

Reporting on...	GAAP deviation
<p>Original Capital Assets – Land Buildings and Equipment as per the approved Final Capital Cost</p>	<p>Land, buildings and equipment shall only include the approved Final Capital Cost (FCC). These assets will be depreciated in the manner outlined below.</p> <p>Any subsequent purchases of eligible capital items will be directly expensed to the capital reserve fund except items identified for different treatment under Additional Capital Items.</p>
<p>Additional Capital Assets</p>	<p>\$100 Million Social Housing Capital Repair Fund 2008</p> <ul style="list-style-type: none"> ▪ For accounting treatment and sample journal entries please see Appendix I. <p>Social Housing Renovation and Retrofit Program (SHRRP) 2009-2010</p>

	<ul style="list-style-type: none"> ▪ For accounting treatment and sample journal entries please see Appendix II. <p>Funding in both programs is through a Forgivable Loan that will be fully forgiven on the day immediately following the tenth anniversary of the date upon which the work is deemed complete and all the requirements of the respective agreements are met.</p>
Depreciation – Original Capital Assets	<p>Land, buildings and equipment will be depreciated at an amount equal to the principal reduction of the mortgage for the fiscal year so that at all times the net book value of the land, buildings and equipment at year end equals the principal balance of the mortgage.</p> <p>In determining the principal repaid an accrual must be made for the amount of principal to be repaid on the first day following the housing provider's fiscal year end.</p>
Depreciation – Additional Capital Assets	<p>\$100 Million Social Housing Capital Repair Fund 2008</p> <ul style="list-style-type: none"> ▪ For accounting treatment and sample journal entries please see Appendix I. <p>Social Housing Renovation and Retrofit Program (SHRRP) 2009-2010</p> <ul style="list-style-type: none"> ▪ For accounting treatment and sample journal entries please see Appendix II.
Unrealized Gains and Losses	<p>Do not record unrealized gains or losses on financial instruments. Investments are to be recorded on the balance sheet at an amount equal to the original cost plus interest earned plus reinvested dividends plus/minus realized gains and losses minus withdrawals.</p> <p>Earned interest, reinvested</p>

	dividends and realized gains and losses are to be recorded on the income statement, unless they are amounts related to capital replacement reserve funds, which should be recorded on the balance sheet.
--	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Note:

Ensure your auditor receives a copy of this HIP P&P in order that they can deviate from GAAP reporting for depreciation, capital items and unrealized gains/losses without having to issue a qualified statement.

Annual Information Return (AIR) – Additional Capital Items

The instructions for completing the AIR as it pertains to Additional Capital Items are as follows:

Item	Record on AIR page...
Additional subsidy	A9 line 774
Additional contribution to the reserve	A4 line 575 (as a negative and with an appropriate description) A6 line 655
Expenses	A6 and itemized separately

Explanation:

Excluding the Additional Capital Contribution to Reserve from line 547 (Mandatory Transfer to CRF) will ensure that shelter surplus is correctly determined for subsidy entitlement.

Including the Additional Capital Contribution to Reserve on line 575 (Gifts/Donations) will ensure that the consolidated figures in the Corporate Statement of Accumulated Surplus/Deficit are correct.

Questions

If you have questions pertaining to this document, please contact your Social Housing Administrator at the Region of Peel.

References

The following are referenced in this document:

- *Social Housing Reform Act, 2000, s. 113 (2)*
- *O. Reg. 339/01 s 36*
- Additional Subsidy Agreement
- Social Housing Renovation and Retrofit Program (SHRRP) Guideline
- Social Housing Renovation and Retrofit Program (SHRRP) Funding Agreement

Appendix I

\$100 Million Social Housing Capital Repair Fund 2008

As per the Additional Subsidy Agreement between the housing provider and the Regional Municipality of Peel the housing provider is required to:

- Disclose the additional subsidy as a separate item on its Audited Financial Statements and detail the amount and nature of disbursement [14.02(d)]
- Record the Additional Subsidy as contribution to its Capital Reserve Fund (CRF); [14.02 (d)]
- Detail the amount of disbursements on the work separately when reporting CRF expenditures in the Annual Information Return [14.02(d)].

Goods and Services Tax (GST) treatment is outlined in a letter from the Region of Peel dated March 1, 2010 and titled Provincial Capital Repair Program – Final Amendments.

In Peel this applies to the following housing providers:

- Fletcher’s Creek Co-operative
- Lom Nava Co-operative
- Northwood Park Co-operative

Accounting treatment

- The notes to the Audited Financial Statements must identify the amount and nature of disbursement
- For the entire period of time that the Forgivable Loan is outstanding there will be no depreciation applied to the original amount of the Capital Improvements Asset
- At all times the Forgivable Loan will equal the sum of Capital Improvements Asset and Cash – Restricted for \$100 M Capital Program
- Once the requirements are met so that the loan is forgiven the full amount of the Capital Improvements Asset will be fully depreciated in that year

The journal entries with sample amounts are as follows:

dr Cash – Restricted for \$100 M Capital Program 500,000
cr Forgivable Loan 500,000
To record additional capital subsidy as received from the Service Manager

dr Contribution to Capital Reserve 105,000
cr Capital Reserve Liability 105,000
To allocate the additional capital subsidy dollars to the Capital Reserve Fund as expenditures occur

dr Capital Reserve Liability 105,000
cr Cash – Restricted for \$100 M Capital Program 105,000
To pay for an expenditure

dr Capital Improvements Asset 105,000
cr Additional Subsidy 105,000
To capitalize the expense and recognize the additional capital subsidy received as expenditures occur

dr GST Receivable 5,000
cr Capital Reserve Liability 5,000
To record a GST receivable into the Capital Reserve Fund for the portion of GST rebate also included in the additional subsidy

dr Cash – Restricted for \$100 M Capital Program 5,000
cr GST Receivable 5,000
To record the receipt of the GST refund into the Capital Reserve Fund

Appendix II

Social Housing Renovation and Retrofit Program (SHRRP) 2009-2010

There are three documents directing reporting requirements.

1. As per the Social Housing Renovation and Retrofit Program (SHRRP) Guideline, June 2009:
 - The provider must agree to maintain the social housing as affordable for a minimum of 10 years (p2)
 - Each provider's Annual Information Return (AIR) must contain an audited statement of SHRRP project expenditures (p 15)
 - The auditor is also required to confirm that the funding provided was spent on approved, eligible capital expenditures (p 15).
2. As per the Social Housing Renovation and Retrofit Program (SHRRP) Funding Agreement between the housing provider and the Regional Municipality of Peel:
 - The housing provider is required to submit a separate audited statement with the Annual Return (AIR) regarding the SHRRP funds [Article 7.02(c)].
3. As per Schedule E of the SHRRP Administration Agreement between the Province and the Region of Peel:

The Ministry has revised its reporting requirements of the SHRRP funding to make it less onerous on the providers. In the revised Schedule E of the SHRRP Administration Agreement section 6.11 states:

- The Service Manager shall ensure that, with respect to each Project, the housing provider's audited financial statements for each fiscal year in which Funding is spent on a Project contain a note(s) or supplementary schedule(s) reporting the amount of SHRRP Funding that the housing provider spent on the Project in such fiscal year.

Goods and Services Tax (GST) treatment is outlined in a letter from the Region of Peel dated February 24, 2010 and titled Update on Goods & Services Tax for SHRRP.

The audit of the SHRRP expenditures focuses on compliance with the SHRRP agreement.

Changes to the reporting requirements will allow housing providers to more effectively report SHRRP spending. With the revision the housing provider's audited financial statements only need to contain a note(s) or supplementary schedule(s) reporting the total amount of SHRRP Funding spent on the Project.

There is not a separate sheet in the AIR spreadsheet.

Scenario I

- Is applicable to providers that fall under the *Social Housing Reform Act (SHRA)* and 15.1 Providers with the exception of Peel Cheshire Homes Inc.
- These providers have mortgages with amortization terms that expire beyond 10 years after SHRRP work is completed.
- Therefore are bound to maintain the social housing as affordable for longer than the minimum requirement of 10 years for SHRRP funding.

Accounting Treatment of SHRRP Funds

- No deferred recognition of SHRRP Funds
- No capitalization of assets

The journal entries and sample amounts are as follows:

dr Cash – Restricted for SHRRP Capital Program 500,000
 cr Additional Subsidy 500,000
To recognize the SHRRP dollars as received from the Service Manager

dr Contribution to Capital Reserve 500,000
 cr Capital Reserve Liability 500,000
To allocate the SHRRP Dollars to the Capital Reserve Fund

dr Capital Reserve Liability 105,000
 cr Cash – Restricted for SHRRP Capital Program 105,000
To record a payment for expenses under SHRRP from the Capital Reserve Fund

dr GST Receivable 5,000
 cr Capital Reserve Liability 5,000
To record a GST receivable into the Capital Reserve Fund for the portion of GST rebate also included in the additional subsidy

dr Cash – Restricted for SHRRP Capital Program 5,000
 cr GST Receivable 5,000
To record the receipt of the GST refund into the Capital Reserve Fund

The time difference between when the GST receivable is recorded and when it is actually received will cause the Capital Reserve Fund to be out of balance.

Scenario II

- Is applicable to 56.1 Providers and Peel Cheshire Homes Inc.
- SHRRP Funds Received = Project Expenditures
- Have mortgages with amortization terms that expire prior to the end of the 10 year requirement to maintain the social housing as affordable to be eligible for SHRRP funds, and the SHRRP funding is greater than or equal to project expenditures.

Accounting Treatment of SHRRP Funds

- Recognition of SHRRP dollars as expenditures occur
- The notes to the audited financial statements must identify the amount and nature of disbursement
- For the entire period of time that the Forgivable Loan is outstanding there will be no depreciation applied to the original amount of the Capital Improvements Asset
- At all times the Forgivable Loan will equal the sum of Capital Improvements Asset and Cash – Restricted for SHRRP Capital Program
- Once the requirements are met so that the loan is forgiven the full amount of the Capital Improvements Asset will be fully depreciated in that year

The journal entries with sample amounts are as follows:

dr Cash – Restricted for SHRRP Capital Program 500,000
cr Forgivable Loan 500,000
To record the SHRRP dollars as received from the Service Manager

dr Contribution to Capital Reserve 105,000
cr Capital Reserve Liability 105,000
To allocate the SHRRP dollars to the Capital Reserve Fund as expenditures occur

dr Capital Reserve Liability 105,000
cr Cash – Restricted for SHRRP Capital Program 105,000
To pay for an expenditure

dr Capital Improvements Asset 105,000
cr Additional Subsidy 105,000
To capitalize the expense and recognize the additional subsidy received as expenditures occur

dr GST Receivable 5,000
cr Capital Reserve Liability 5,000
To record a GST receivable into the Capital Reserve Fund for the portion of GST rebate also included in the additional subsidy

dr Cash – Restricted for SHRRP Capital Program 5,000
cr GST Receivable 5,000
To record the receipt of the GST refund into the Capital Reserve Fund

The time difference between when the GST receivable is recorded and when it is actually received will cause the Capital Reserve Fund to be out of balance.

Scenario III

- Is applicable to 56.1 Providers and Peel Cheshire Homes Inc.
- SHRRP Funds Received < Project Expenditures
- Have mortgages with amortization terms that expire prior to the end of the 10 year requirement to maintain the social housing as affordable to be eligible for SHRRP funds, and the SHRRP funding is less than the project expenditures.

Accounting Treatment of SHRRP Funds

- Only applies to the portion of project expenditure funded with SHRPP dollars
- Accounting treatment is the same as in Scenario II
- The portion of the project expenditure that is not funded with SHRRP dollars is to be treated in accordance with the existing CRF rules