

**Manitoba Housing and Renewal Corporation (MHRC)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDING  
MARCH 31, 2004**

## MANAGEMENT REPORT

The accompanying financial statements of The Manitoba Housing and Renewal Corporation are the responsibility of management and have been prepared in accordance with the accounting policies stated in the financial statements. These accounting policies have been applied on a basis consistent with that of the preceding year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to November 1, 2004.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of The Manitoba Housing and Renewal Corporation are properly safeguarded.

The responsibility of the Office of the Auditor General of the Province of Manitoba is to express an independent, professional opinion on whether the financial statements of The Manitoba Housing and Renewal Corporation are fairly presented in accordance with the accounting policies stated in the notes to the financial statements. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management



Henry Bos, Director, Corporate Services



Kim Sharman, Assistant Deputy Minister

November 1, 2004



**Office of the Auditor General**

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500 - 330 Portage Avenue  
Winnipeg, Manitoba  
CANADA R3C 0C4

**AUDITORS' REPORT**

To the Legislative Assembly of Manitoba  
To the Board of Directors of The Manitoba Housing and Renewal Corporation

We have audited the balance sheet of The Manitoba Housing and Renewal Corporation as at March 31, 2004 and the statements of operations, The Manitoba Housing and Renewal Fund Deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accounting principles.

*Office of the Auditor General*

Office of the Auditor General

Winnipeg, Manitoba  
November 1, 2004

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
BALANCE SHEET  
MARCH 31, 2004**


**A S S E T S**

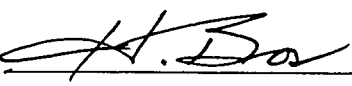
	<u>2004</u>	<u>2003</u>
Cash (note 5)	\$ 82,151,251	\$ 89,178,758
Accounts receivable and accruals (note 6)	26,848,052	20,765,428
Loans and mortgages receivable (note 7)	165,873,300	169,879,871
Investment in land and housing:		
Housing projects (note 8)	85,214,161	92,295,202
Housing investment (note 9)	2,252,901	2,589,574
Land development costs (note 10)	2,649,591	1,716,523
Land (note 11)	<u>12,198,560</u>	<u>11,946,190</u>
	<u>102,315,213</u>	<u>108,547,489</u>
	<u>\$377,187,816</u>	<u>\$388,371,546</u>

**LIABILITIES AND FUND BALANCE**

Accounts payable, holdbacks and accruals	\$ 37,332,260	\$ 31,964,538
Provision for modernization and improvement	-	7,328,589
Deferred revenue (note 12)	2,241,123	2,244,224
Long-term debt (note 13)	520,405,850	532,239,841
Risk reserve fund (note 14)	12,029,230	14,285,533
Deferred contributions (note 14)	52,214,530	48,121,888
The Manitoba Housing and Renewal Fund Deficit	<u>(247,035,177)</u>	<u>(247,813,067)</u>
Contingencies (note 23)		
Commitments (note 24)		
Guarantees (note 25)		
	<u>\$377,187,816</u>	<u>\$388,371,546</u>

Approved by the Board of Directors:

 Director

 Director

(see accompanying notes)

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED MARCH 31, 2004**

	<u>2004</u>	<u>2003</u>
Revenue:		
Grants from the Province of Manitoba (note 15)	\$ 30,822,960	\$ 25,692,948
Contributed services (note 16)	2,050,300	6,206,916
Rental revenue (note 17)	61,663,363	60,223,820
Subsidy contributions	68,482,198	67,651,851
Interest:		
Loans and mortgages	16,783,387	17,225,789
Bank and other	<u>113,259</u>	<u>13,992</u>
	<u>16,896,646</u>	<u>17,239,781</u>
Sales of land - joint venture (note 10)	3,428,490	1,482,399
Other	<u>77,079</u>	<u>198,223</u>
	<u>183,421,036</u>	<u>178,695,938</u>
Expenses:		
Housing operations (note 17)	99,994,897	99,148,254
Rental subsidies (note 18)	45,724,412	44,433,233
Grants and subsidies (note 19)	3,985,068	4,289,457
Interest expense (note 20)	16,825,813	17,644,092
Administrative services (note 16)	1,592,800	2,550,822
Loss (gain) on sale of housing projects and land	552,223	(797)
Provision for loss and write downs	(6,437)	731,465
Cost of land sales - joint venture	2,738,214	1,028,079
Repair and renovation expense (note 16)	9,259,180	8,308,542
Other	805,091	537,176
Pension (note 21)	<u>1,171,885</u>	<u>-</u>
	<u>182,643,146</u>	<u>178,670,323</u>
Excess of revenue over expenses	<u>\$ 777,890</u>	<u>\$ 25,615</u>

(see accompanying notes)

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
STATEMENT OF THE MANITOBA HOUSING AND RENEWAL FUND DEFICIT  
YEAR ENDED MARCH 31, 2004**

	<u>2004</u>	<u>2003</u>
Deficit at beginning of year as previously reported	\$ (17,787,340)	\$ (17,306,665)
Add – change in accounting policy (note 3)	<u>(230,025,727)</u>	<u>(230,532,017)</u>
Deficit as restated	(247,813,067)	(247,838,682)
Add – excess of revenue over expenses	<u>777,890</u>	<u>25,615</u>
Deficit at end of year	\$( <u>247,035,177</u> )	\$( <u>247,813,067</u> )

(see accompanying notes)

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED MARCH 31, 2004**

	<u>2004</u>	<u>2003</u>
Cash provided by (used for):		
<u>Operating activities:</u>		
Excess of revenue over expenses	\$ 777,890	\$ 25,615
Add (deduct) items not involving cash:		
Amortization	8,132,725	8,220,294
Provision for loss and write downs	(6,437)	731,465
Loss (gain) on sale of housing projects and land	552,223	(797)
Federal subsidies - housing projects	<u>( 743,433)</u>	<u>( 743,433)</u>
	8,712,968	8,233,144
Net change in non-cash balances related to operations:		
Accounts receivable and accruals	(6,082,624)	(142,061)
Accounts payable, holdbacks and accruals	5,367,722	6,935,531
Provision for modernization and improvement	(7,328,589)	(8,209,010)
Deferred revenue	(3,101)	617,605
Deferred contributions	4,092,642	4,380,104
Land development costs	(933,068)	(968,477)
Land in joint venture	256,933	167,641
Risk reserve fund	<u>(2,256,303)</u>	<u>373,485</u>
	<u>1,826,580</u>	<u>11,387,962</u>
<u>Financing activities:</u>		
Borrowings	1,150,631	525,262
Repayment of borrowings	<u>(12,984,622)</u>	<u>(10,795,809)</u>
	<u>(11,833,991)</u>	<u>(10,270,547)</u>
<u>Investing activities:</u>		
Additions to land and housing	(1,104,304)	(2,151,644)
Additions to loans and mortgages	(174,270)	(345,500)
Proceeds from sale of land and housing	71,200	69,962
Proceeds from repayment of loans and mortgages	<u>4,187,278</u>	<u>5,133,801</u>
	<u>2,979,904</u>	<u>2,706,619</u>
(Decrease) Increase in cash	(7,027,507)	3,824,034
Cash at beginning of year	<u>89,178,758</u>	<u>85,354,724</u>
Cash at end of year	<u>\$82,151,251</u>	<u>\$89,178,758</u>

(see accompanying notes)

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**1. Authority**

The Manitoba Housing and Renewal Corporation (MHRC) operates under the authority of The Housing and Renewal Corporation Act, being Chapter H 160 Revised Statutes of Manitoba 1987. The purposes and objects of the Act are:

- a) to ensure that there is an adequate supply of housing stock in Manitoba;
- b) to enhance the affordability of, and accessibility to, adequate housing for Manitobans, particularly those of low and moderate income and those with specialized needs;
- c) to maintain and improve the condition of existing housing stock; and
- d) to stimulate and influence the activities of the housing market to the benefit of Manitobans as a whole.

MHRC is under the management and control of a Board of Directors appointed by the Lieutenant Governor in Council. The board shall consist of not fewer than five members and not more than 13 members and the Lieutenant Governor in Council may designate one of the members of the board as chairperson and one member as vice-chairperson.

The Corporation is economically dependent on the Government of the Province of Manitoba.

These financial statements include, in note 17, the operating results of MHRC owned properties which are managed by The Manitoba Housing Authority (MHA). MHA was incorporated in 1992 as an agency of MHRC.

MHA is under the management and control of a Board of Directors who are appointed by the Minister of Family Services and Housing.

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**2. Significant accounting policies**

**a) Basis of accounting**

The Corporation's financial statements are prepared using Canadian generally accepted accounting principles.

**b) Loans and mortgages receivable**

Loans and mortgages receivable are valued at principal amounts less an allowance for loan impairment.

**c) Loan forgiveness**

Loan forgiveness for forgivable loans is approved in accordance with the terms of the loan agreements. The Corporation records an asset valuation allowance equal to the amount of the loan at the time the loan is granted. As forgiveness conditions are met by the borrower, the Corporation records the annual forgiveness by reducing both the forgivable loan and the accompanying valuation allowance.

**d) Allowance for loan impairment**

The Corporation maintains an allowance for loan impairment, which reduces the carrying value of loans and mortgages receivable to their estimated realizable amounts. Depending on the program under which the loan or mortgage is made, estimated realizable amounts are determined with reference to the Corporation's historical loss experience on similar loans or the appraised value of the project financed by the loan or mortgage.

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

Specific allowances are established for individual loans and mortgages for which the estimated realizable amount is less than the carrying value. The Corporation does not provide any additional non-specific, general provision for loan impairment. The Corporation's Board of Directors has approved a policy which defines whether an individual mortgage or loan balance is to be considered impaired based on the time period that it has been in arrears.

**e) Housing projects and amortization**

- i) Social housing projects are valued at cost less accumulated amortization.
- ii) Market housing projects are valued at the lesser of cost less accumulated amortization and net realizable value.
- iii) Cost includes direct construction costs, land acquisition costs and interest and other related carrying charges incurred during the period of construction.
- iv) Housing projects which are declared abandoned or surplus to the needs of the Corporation are valued at the lesser of cost less accumulated amortization and net realizable value.
- v) Housing projects are amortized on a straight-line basis over their estimated useful lives as follows:

Wood buildings – 25 years

Brick buildings – 40 years

**f) Housing investment**

Housing investment is valued at cost less accumulated amortization. Annual amortization is recorded on a straight-line basis over the estimated useful lives as follows:

Wood buildings – 25 years

Brick buildings – 40 years

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**g) Interest in joint venture**

The interest in joint venture is recognized using the proportionate consolidation method. Proportionate consolidation is a method of accounting and reporting whereby MHRC's prorata share of each of the assets, liabilities, revenues and expenses of the joint venture is combined on a line by line basis with similar items in MHRC's financial statements.

**h) Land**

Land is valued at the lower of cost and appraised value adjusted for estimated disposition costs, except for land leased to co-operatives. Cost includes acquisition costs and related carrying costs. The carrying costs of the land, which include interest, planning and development costs, grants in lieu of taxes, less revenue derived from use of undeveloped land, were capitalized to land to March 31, 1993. Effective April 1, 1993 the carrying costs are charged annually to operations. Cost for land acquired after March 31, 1993 consists of the original purchase price.

Land leased to co-operatives is valued at original cost. The Corporation incurs no liabilities or obligations with respect to the lessees' buildings situated on the land. The carrying costs of the land, net of lease revenue, are charged annually to MHRC operations.

**i) Interest capitalization**

Interest costs on financing related to housing projects and housing investments are capitalized to the date of completion.

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**j) Pension costs and obligations**

Current service contributions for MHA employees are recognized as operating expenses. The Corporation has no further liability associated with the annual cost of pension benefits earned by MHA employees.

The Corporation has a liability associated with the annual cost of pension benefits earned by the former Department of Family Services and Housing employees who were transferred to the Corporation on February 8, 2003 (note 26).

**k) Contributed and administrative services**

Under an agreement entered into between The Manitoba Housing and Renewal Corporation and the Department of Family Services and Housing, in 1984, the Department provides administrative services to MHRC at no cost. The value of these contributed and administrative services is recorded as revenue and expenses.

**l) Modernization and improvement**

Significant, non-recurring modernization and improvement costs, which have been funded by designated revenues, have been accrued in the same period that such designated grant or subsidy revenues were approved by the funder and recorded by MHRC. As such costs are incurred, the provision for modernization and improvement is drawn down. Normal, recurring repairs and maintenance costs, which are funded by annual grant and subsidy revenues are expensed in the period in which they are incurred.

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**m) Financial instruments**

i) Financial Risk

Financial risk is the risk to the Corporation's operations that arises from fluctuations in interest rates, and the degree of volatility of those rates. The Corporation does not use derivative instruments to reduce its exposure to interest risk. This risk is mitigated through the almost exclusive use of fixed rate terms for its mortgages and loans receivable and its long-term debt.

ii) Credit Risk

Credit risk arises from the potential that a counterparty to an agreement with the Corporation will fail to perform its obligations. The Corporation conducts an assessment of credit issues prior to committing to such agreements and it actively monitors the credit risks associated with its accounts receivable and loans and mortgages receivable on an ongoing basis.

iii) Fair Value

There is no secondary market for many of the financial assets in which the Corporation invests or for the debt it issues. These circumstances, together with the uncertainty and potentially broad range of outcomes pertaining to the future cash flows related to these items, render the calculation of fair values, with appropriate reliability, impractical.

**n) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**3. Change in Accounting Policy**

Effective April 1, 2003, the Corporation initiated the following change in accounting policy:

Previously, the amortization for housing projects and housing investment was based on actual principal repayment of long-term debt. Amortization for housing projects under the Rural and Native Housing Program was based on the imputed principal repayment equivalent to that of 100% long-term debt financing with Canada Mortgage and Housing Corporation.

Effective April 1, 2003, amortization for housing projects, housing investment, and housing projects under the Rural and Native Housing Program is recorded on a straight-line basis over their estimated useful lives as follows:

Wood buildings – 25 years

Brick buildings – 40 years

The effects of the above change in accounting policy, which has been retroactively applied with restatement, on the balance sheet as at March 31, 2004, are to increase accumulated amortization for housing projects by \$227,431,674 (2003 - \$228,421,555), to decrease housing investment by \$10,891,891 (2003 - \$11,721,341), to decrease financing provided by CMHC for housing projects by \$8,931,272 (2003 - \$9,730,193), to increase the original cost for housing projects by \$386,641 (2003 - \$386,976), and to decrease the deficiency of revenue over expenses transferred to The Manitoba Housing and Renewal Fund by \$1,020,075 (2003 - \$506,290). As a result of the above changes, the opening balance in The Manitoba Housing and Renewal Fund Deficit as at April 1, 2003 has been increased by \$230,025,727 (April 1, 2002 - \$230,532,017).

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**4. Acquisition of Control of Social Housing Operations**

Pursuant to the Social Housing Agreement executed by MHRC and CMHC on September 3, 1998 which took effect October 1, 1998, CMHC transferred its ownership interest in Public Housing Projects to MHRC in accordance with a Declaration of Trust, and MHRC has assumed sole responsibility for operating policy decisions relating to these projects. Previous agreements provided for the two parties to exercise joint control over operating policies. Rental subsidies provided through agreements with third parties for which MHRC has assumed responsibility are included in note 18.

**5. Cash**

	<u>2004</u>	<u>2003</u>
On deposit with the Minister of Finance:		
Trust deposits	\$62,401,480	\$62,233,148
Modernization and improvement fund	-	8,325,180
Risk reserve fund (note 14)	12,029,230	14,285,533
Mobile home loan guarantee program fund (note 25)	812,102	789,993
Noon meal program	<u>192,074</u>	<u>130,807</u>
	75,434,886	85,764,661
Bank	6,707,690	3,406,589
Petty cash	<u>8,675</u>	<u>7,508</u>
Cash	<u>\$82,151,251</u>	<u>\$89,178,758</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**6. Accounts receivable and accruals**

	<u>2004</u>	<u>2003</u>
Canada Mortgage and Housing Corporation	\$ 4,981,195	\$ 1,250,117
Government of the Province of Manitoba and its agencies	6,887,280	7,766,094
Rent receivables - net of allowance of \$5,499,175 (2003 - \$4,877,314 )	1,598,189	1,225,593
Accrued interest on loans and mortgages receivable	508,029	716,876
City of Winnipeg - net of allowance of \$67,927 (2003 - \$65,097)	34,931	55,490
Other - net of allowance of \$21,138 (2003- \$154,874)	7,997,894	6,082,609
Government of the Province of Manitoba - pension recoverable (note 21)	<u>4,840,534</u>	<u>3,668,649</u>
Accounts receivable and accruals	<u>\$26,848,052</u>	<u>\$20,765,428</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**7. Loans and mortgages receivable**

**a) Composition of loans and mortgages receivable**

	<u>2004</u>	<u>2003</u>
Federal/Provincial Housing:		
Private Non-Profit Housing Program	\$104,077,184	\$105,542,975
Rural and Native Housing Program	34,960	70,277
Urban Native Housing Program	<u>38,231,765</u>	<u>39,799,039</u>
	<u>142,343,909</u>	<u>145,412,291</u>
Market Rental Programs:		
Co-operative HomeStart Program	8,422,986	8,263,551
Co-operative Index Linked Program	8,697,594	9,072,876
Manitoba Rural RentalStart Program	566,365	577,528
Manitoba Senior RentalStart Program	<u>5,252,580</u>	<u>5,363,198</u>
	<u>22,939,525</u>	<u>23,277,153</u>
Other Programs:		
Community Residences Program	5,618,837	6,379,011
Market Homeowner Programs	187,214	275,095
Homeowner Rehabilitation Programs	532,112	444,112
Other	<u>434,566</u>	<u>329,283</u>
	<u>6,772,729</u>	<u>7,427,501</u>
	<u>172,056,163</u>	<u>176,116,945</u>
Less - allowance for loan impairment	<u>6,182,863</u>	<u>6,237,074</u>
Loans and mortgages receivable	<u>\$165,873,300</u>	<u>\$169,879,871</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

Loans and mortgages receivable bear interest at various rates between 0% and 13.5% with maturities at various dates to 2024.

In addition to the loans and mortgages above, forgivable loans outstanding in the amount of \$29,632,071 (2003 - \$20,063,335) have been approved in accordance with the terms of the loan agreements. An asset valuation allowance equal to the amount of outstanding forgivable loans has been recorded by the Corporation.

**b) Allowance for loan impairment**

The allowance for loan impairment is comprised of the following specific provisions:

	<u>2004</u>	<u>2003</u>
Market rental programs	\$5,990,346	\$5,990,397
Other programs	<u>192,517</u>	<u>246,677</u>
	<u>\$6,182,863</u>	<u>\$6,237,074</u>

**8. Housing projects**

	<u>2004</u>	<u>2003</u>
Completed Housing Projects:		
Land	\$ 21,800,176	\$ 21,800,176
Buildings	<u>384,498,043</u>	<u>384,526,795</u>
	406,298,219	406,326,971
Less - financing provided by CMHC	<u>5,567,011</u>	<u>6,310,444</u>
	400,731,208	400,016,527
Less - accumulated amortization	<u>315,517,047</u>	<u>307,721,325</u>
Housing projects	<u>\$ 85,214,161</u>	<u>\$ 92,295,202</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**9. Housing investment**

Housing investment represents MHRC's share in social housing projects, which until October 1, 1998 were administered by CMHC and subsequently have been administered by MHRC, under the Rural and Native Housing Program.

On September 3, 1998, MHRC and CMHC executed a Declaration of Trust by which CMHC has transferred their ownership interest in cost-shared and 100% CMHC funded Public Housing projects to MHRC, as trustee. MHRC's interest in these projects will be earned over the remainder of each project's CMHC subsidy commitment period, in amounts which will correspond to the annual amortization of the assets. No increase in housing investment has been recorded by MHRC.

**10. Joint venture**

The Corporation contributed 179 acres of land, at appraised value, to a joint venture with Ladco Company Limited on May 11, 1989. The appraised value of the land at that time, adjusted for subsequent sales, was \$2,079,132 (2003 - \$2,336,065) and is included in joint venture land in note 11. The joint venture activities include the servicing, development and sale of approximately 476 acres of land in the City of Winnipeg, Manitoba. In accordance with the terms of the agreement, the Corporation has provided loan guarantees for the purposes of the joint venture development in an amount not to exceed \$2,400,000 (note 25).

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

The following is a summary of the Corporation's pro rata share of the assets, liabilities, revenues and expenses of the Ladco Company Limited joint venture.

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and short term investments	\$ 177,516	\$ 189,762
Accounts receivable from land sales	<u>2,316,067</u>	<u>1,049,522</u>
	<u>2,493,583</u>	<u>1,239,284</u>
Long Term Assets:		
Development in progress	<u>2,649,591</u>	<u>1,716,523</u>
Total Assets	<u>\$5,143,174</u>	<u>\$2,955,807</u>
Current Liabilities:		
Accounts payable and accrued liabilities	<u>2,039,144</u>	<u>535,269</u>
Net Assets	<u>\$3,104,030</u>	<u>\$2,420,538</u>
Sales of land	3,428,490	1,482,399
Cost of land sales	<u>2,481,281</u>	<u>860,438</u>
Gross margin	<u>947,209</u>	<u>621,961</u>
Expenses:		
Interest on bank indebtedness	70,588	3,904
General	156,363	63,388
Other	<u>36,766</u>	<u>56,675</u>
Total expenses	<u>263,717</u>	<u>123,967</u>
Net income for the year	<u>\$ 683,492</u>	<u>\$ 497,994</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**11. Land**

	<u>2004</u>	<u>2003</u>
Under development	\$ 146,000	\$ 146,000
Future development or sale	8,239,036	7,729,733
Leased to co-operatives	1,734,392	1,734,392
Joint venture	<u>2,079,132</u>	<u>2,336,065</u>
Land	<u>\$12,198,560</u>	<u>\$11,946,190</u>

**12. Deferred revenue**

	<u>2004</u>	<u>2003</u>
Manitoba Housing Authority tenant prepaid rent	\$1,975,115	\$1,995,304
Other prepaid land lease and subsidy contribution received in advance	<u>266,008</u>	<u>248,920</u>
Deferred revenue	<u>\$2,241,123</u>	<u>\$2,244,224</u>

**THE MANITOBA HOUSING AND RENEWAL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2004**

**13. Long-term debt**

	<u>2004</u>	<u>2003</u>
Government of the Province of Manitoba:		
Advances, convertible to long-term advances, at prime interest rates	\$ 1,986,362	\$ 1,401,954
Long-term advances, at interest rates from 6.125% to 13.375% maturing at various dates to 2030 and requiring annual principal and interest payments of \$43,992,842 (2003 - \$46,740,265)	334,753,095	343,650,271
Canada Mortgage and Housing Corporation:		
Long-term advances, at interest rates from 5.75% to 11.00% maturing at various dates to 2030 and requiring annual principal and interest payments of \$15,112,820 (2003 - \$15,115,477)	180,601,062	184,615,157
Mortgages payable (assumed on property acquisitions), at interest rates from 5.125% to 9.625% maturing at various dates to 2030 and requiring annual principal and interest payments of \$325,479 (2003 - \$275,215)	<u>3,065,331</u>	<u>2,572,459</u>
Long-term debt	<u>\$520,405,850</u>	<u>\$532,239,841</u>

Principal repayments on the long-term debt are estimated as follows:

2005	\$ 13,444,362	
2006	14,521,244	
2007	15,659,562	
2008	16,059,900	
2009	17,343,437	
Subsequent to 2010	<u>443,377,345</u>	
	<u>\$520,405,850</u>	

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**14. Deferred contributions and risk reserve fund**

Pursuant to the Social Housing Agreement executed by MHRC and CMHC, CMHC will pay fixed annual contributions to MHRC for individual housing projects over the remainder of the CMHC subsidy commitment period. The Agreement took effect October 1, 1998 and has a funding expiration date of August 31, 2031. The Agreement provides that a specified amount of the annual federal contributions must be applied toward housing programs, which assist low income households, as defined in the Agreement. The portion of federal contributions that may be applied toward other housing programs is similarly specified. Unexpended federal contributions are carried forward by MHRC for future use, but such contributions must be fully used, in accordance with the Agreement, by the funding expiration date of August 31, 2031.

Pursuant to the Social Housing Agreement dated September 3, 1998 between CMHC and MHRC, CMHC made a one-time payment of \$12,700,000 to MHRC in 1999. This amount was provided for the purpose of mitigating future operating risks associated with MHRC's financial responsibility for housing programs transferred from CMHC pursuant to the Agreement. This amount has been recorded as a risk reserve fund and is increased by interest earned thereon and is reduced as the Corporation incurs expenses as a result of the identified risks.

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**15. Grants from the Province of Manitoba**

	<u>2004</u>	<u>2003</u>
Department of Family Services and Housing:		
MHRC operating programs	\$21,361,229	\$21,304,600
MHRC administration	4,622,771	455,284
Grants and subsidies	<u>3,170,028</u>	<u>3,411,365</u>
	29,154,028	25,171,249
Grants recovered from the Department of Finance:		
School Tax Assistance for Tenants		
55 Plus Program	497,047	521,699
Pension recovery (note 21)	<u>1,171,885</u>	-
Grants from the Province of Manitoba	<u>\$30,822,960</u>	<u>\$25,692,948</u>

**16. Contributed and administrative services**

	<u>2004</u>	<u>2003</u>
Administrative services provided by the Department of Family Services and Housing were allocated as follows:		
- included in the Statement of Operations, Administrative Services	\$ 646,500	\$2,095,538
- included in administration expenses in note 17, Manitoba Housing Authority Housing Operations	789,000	1,829,100
- included in administration expenses in note 17, Sponsor Managed Housing Operations	10,600	273,900
- included in Rental Subsidies, note 18	278,600	1,624,600
- included in Statement of Operations, Repair and renovation expense	<u>325,600</u>	<u>383,778</u>
Total Department of Family Services and Housing administrative services provided	<u>\$2,050,300</u>	<u>\$6,206,916</u>

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**17. Housing operations**

The management and operation of all MHRC social housing projects are the responsibility of the Manitoba Housing Authority and sponsor managed groups. Their operating results are:

	<u>Manitoba Housing Authority Managed</u>	<u>Sponsor Managed</u>	<b><u>2004</u></b>	<b><u>2003</u></b>
<u>Revenue</u>				
Rental revenue	\$49,877,854	\$11,785,509	\$61,663,363	\$60,223,820
<u>Expenses</u>				
Administration (note 16)	13,129,950	1,431,553	14,561,503	13,864,602
Property operating	32,766,027	7,201,184	39,967,211	38,628,155
Grants in lieu of taxes	8,818,327	1,480,088	10,298,415	11,168,128
Amortization and interest	<u>29,189,248</u>	<u>5,978,520</u>	<u>35,167,768</u>	<u>35,487,369</u>
	<u>83,903,552</u>	<u>16,091,345</u>	<u>99,994,897</u>	<u>99,148,254</u>
Operating loss	<u>\$34,025,698</u>	<u>\$ 4,305,836</u>	<u>\$ 38,331,534</u>	<u>\$ 38,924,434</u>

**18. Rental Subsidies**

The Corporation is obligated to provide ongoing rental subsidies under third party operating agreements.

The net rental subsidies required by these organizations are:

	<b><u>2004</u></b>	<b><u>2003</u></b>
Not for profit housing corporations	\$26,193,279	\$27,008,674
Co-operative housing corporations	3,939,887	4,068,358
Private landlords	4,704,111	4,724,036
Property management agreements	<u>10,887,135</u>	<u>8,632,165</u>
Net rental subsidies	<u>\$45,724,412</u>	<u>\$44,433,233</u>

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**19. Grants and subsidies**

	<u>2004</u>	<u>2003</u>
Shelter Allowance for Family Renters	\$ 894,000	\$ 823,979
Shelter Allowance for Elderly Renters	2,276,028	2,587,386
School Tax Assistance for Tenants 55 Plus Program	497,047	521,699
Elderly & Infirm Persons Housing	155,423	155,423
Co-op Homestart Program	<u>162,570</u>	<u>200,970</u>
	<u>\$3,985,068</u>	<u>\$4,289,457</u>

**20. Interest expense**

In addition to the interest expense of \$16,825,813 (2003 - \$17,644,092), interest expense in the amount of \$25,281,477 (2003 - \$27,852,197) is included in note 17 in the amortization and interest expense.

**21. Pension obligations**

Employees of the Corporation and MHA are eligible for pensions under the Manitoba Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires MHA to contribute an amount equal to the employees' contribution to the Superannuation Fund for current services. Such payments are charged to housing operations as incurred and MHRC has no further liability associated with the annual cost of pension benefits earned by MHA employees. Pension expense recorded for MHA employees for the year ended March 31, 2004 is \$478,909 (2003 - \$466,665).

The Corporation has a liability associated with the annual cost of pension benefits earned by the former Department of Family Services and Housing employees who were transferred to the Corporation on February 8, 2003 (note 26). The liability of \$4,840,534 (2003 - \$3,668,649), the related recoverable amount from the Province of Manitoba of \$4,840,534 (2003 - \$3,668,649), the change in the liability of

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\$1,171,885 which represents an expense and the change in the recoverable of \$1,171,885 which represents revenue are recorded in the financial statements.

**22. Severance pay benefits**

Effective April 1, 1998, the Corporation commenced recording the estimated liability for accumulated severance pay benefits for its employees in The Manitoba Housing Authority. The amount of this estimated liability is determined using the method of calculation set by the Province of Manitoba.

Severance pay, at the employee's date of retirement, will be determined by multiplying the eligible employee's years of service (to a maximum of 22 or 15 years) by the employee's weekly salary at the date of retirement. Eligibility will require that the employee has achieved a minimum of nine years of service and that the employee is retiring from the Corporation.

The Province of Manitoba has accepted responsibility for the severance pay benefits accumulated to March 31, 1998 by the Corporation's employees. Accordingly, the Corporation recorded, effective April 1, 1998, a receivable of \$877,105 from the Province of Manitoba, which is an amount that is equal to the estimated liability recorded for accumulated severance pay benefits at March 31, 1998.

The Corporation recorded a severance liability in the amount of \$569,000 associated with the severance benefits earned by the former Department of Family Services and Housing employees who were transferred to the Corporation on February 8, 2003 (note 26). The Corporation recorded, effective April 1, 2003, a receivable in the amount of \$569,000 from the Province of Manitoba, which is an amount that is equal to the liability recorded for accumulated severance pay benefits at that date.

These receivables from the Province of Manitoba have no terms of repayment and accordingly, the amount of the receivable will remain fixed at \$1,446,105.

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**23. Contingencies**

The Corporation is involved in legal proceedings arising in the normal course of business, the outcome of which cannot be predicted at this time. In the opinion of management, the disposition of these cases will not materially affect the financial position of the Corporation. Any settlement will be recognized in the year the settlement occurs.

**24. Commitments**

The Corporation has the following commitments as at March 31, 2004.

- |  |             |
|--|-------------|
| a) Housing project modernization and improvement | \$1,244,938 |
| b) Repair and renovation expenses                | \$6,602,895 |
| c) Grants and subsidies:                         |             |

As a result of the Social Housing Agreement dated September 3, 1998, MHRC is now fully responsible for the funding commitments of all Social Housing Projects in Manitoba. These commitments will expire on a staggered basis over the period ending 2031, concurrent with the Social Housing Agreement funding expiration date of August 31, 2031. An estimate of these commitments for each of the next five years is as follows:

2005	\$18,218,500
2006	28,219,700
2007	28,400,300
2008	28,761,700
2009	29,432,700

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**25. Guarantees**

The Corporation has guaranteed the repayment of mortgages and has issued letters of credit which guarantee the terms and conditions of land development agreements and construction contracts. The outstanding guarantees are as follows:

	<u>2004</u>	<u>2003</u>
Joint Venture Investment Guarantee (note 10)	\$2,400,000	\$2,400,000
Mobile Home Loan Guarantee Program	877,951	1,133,585
Other mortgage guarantees	<u>2,838,801</u>	<u>807,166</u>
Total guarantees	<u>\$6,116,752</u>	<u>\$4,340,751</u>

A guarantee fee of 2 1/2% is charged for each mortgage under the Mobile Home Loan Guarantee Program. The assets of the Mobile Home Loan Guarantee Program as at March 31, 2004 are \$812,102 (2003 - \$789,993) and are included in cash (note 5). The trust fund liability is included in accounts payable.

**26. Transfer of Personnel to MHRC**

As at February 8, 2003, all staff from the Housing Division of the Department of Family Services and Housing were transferred to MHRC to support the operations of the Corporation.

**27. Comparative figures**

Certain comparative figures in the financial statements have been restated to conform with the presentation of the current year.