2013

Annual Portfolio Performance Review

REPORT TO CMHC

PREPARED FOR THE AGENCY'S WEBSITE

The Agency for Co-operative Housing
L'Agence des coopératives d'habitation

Key Findings

Agreement Objective: increased compliance with project operating agreements

- 81% of Agency clients fully compliant (2008: 70%)

Agreement Objective: decline in the number of operating agreement breaches and material compliance variances

- Breaches and material compliance variances down 35% from 2008

Agreement Objective: fewer instances of mortgage or property-tax arrears

- Decline in both since 2007

Key Findings

Agreement Objective: improvement in the portfolio's overall risk profile

- Half the portfolio is now rated Low or Moderate risk (2007: 39%)
- 81% of clients show a Stable or Strengthening risk trend

Agreement Objective: fewer clients rated High risk

- Clients rated High risk down to 12%, despite addition of leaky co-ops from B.C. (2007: 14%)

Agreement Objective: underperformers returned to financial health without a CMHC Insurance workout or Enhanced Assistance

- 94% of underperformers that returned to financial health by 2013 did so without Enhanced Assistance or CMHC Insurance loan

Key Findings

Agreement Objective: rising percentage of co-ops with Good or Excellent Liquidity and rising percentage with Good or Excellent Net-Income Ratio

- 62% and 81% of clients, respectively, have Liquidity or Net Income rated Good or Excellent (2007: 55% and 79%)
- 57% are rated Good or Excellent on both (2007: 50%)

Agreement Objective: stable or growing number of co-ops with a Good or Excellent physical-condition rating and fewer with a Poor rating

- 81% are rated Good or Excellent (2007: 77%), 1% Poor (2007: 1%)

Agreement Objective: project operating efficiencies lead to more cost-effective use of RGI assistance

- Revenue lost to vacancy losses, arrears and bad debts has declined since 2007

Key Findings

Agreement Objective: better management practices

- Median combined occupant arrears and bad-debt expense continue to fall as a percentage of total occupants' share of housing charges (2013: 0.6%; 2007: 0.9%)
- Total vacancy loss per client fell 37% ($4,163) from 2007 to 2013
- Fewer clients are under-insured
- Spending on maintenance and improvements is rising (median spending per unit (constant dollars) in 2013: $2,466; 2007: $2,069)

Key Findings

Agreement Objective: increasing percentage of co-ops with fully funded capital replacement reserves

- Median annual per-unit reserve contribution has risen 62% in 6 years (2013: $1,521; 2007: $941, constant dollars)
- 93% of clients are fully backing their reserve with cash and investments (2007: 91%)

Agreement Objective: improved client satisfaction

- 75% increase in satisfaction with overall quality of service since measurement of satisfaction with CMHC service prior to Agency start-up (2012: 84%; 2005: 48%)

Table of Contents

OVERVIEW

- 2013 marks the 8th year of the Agency's operations.
- This review reports on the collective performance of 531 co-operative housing clients who together own 32,820 units of housing.
- The Agency portfolio includes co-operatives operating under 6 programs in 4 provinces.

Overview

This review measures progress made toward the 3 principal objectives set out in the Agency's agreement with CMHC

1
More effective management of the portfolio at a comparable or lower cost

2
Continued benefits of co-operative housing for Canadians

3
Improved client satisfaction within the portfolio

3 Principal Objectives

Positive Results Observed Include

COMPLIANCE	Increase in the number of clients in full compliance with their operating agreement
RISK PROFILE	Observable improvement in the portfolio's risk profile, even with a fluctuating economy
OPERATING PERFORMANCE	Co-operatives' collective assets better maintained
CLIENT SATISFACTION	Increased client-satisfaction levels

Overview

- The dataset for 2013
  - draws from 531 Annual Information Returns (AIRs) filed by Agency clients for fiscal years ending in the period August 2012 to July 2013 and validated by January 15, 2014
  - represents 96% of the Agency's 554 clients at December 31, 2013.
- Datasets for prior years are for equivalent periods.
- **Appendix A** gives more information on the datasets.
- The first full year of Agency operations was 2007, the base year against which 2013 information is compared.

Portfolio Profile: Program Distribution

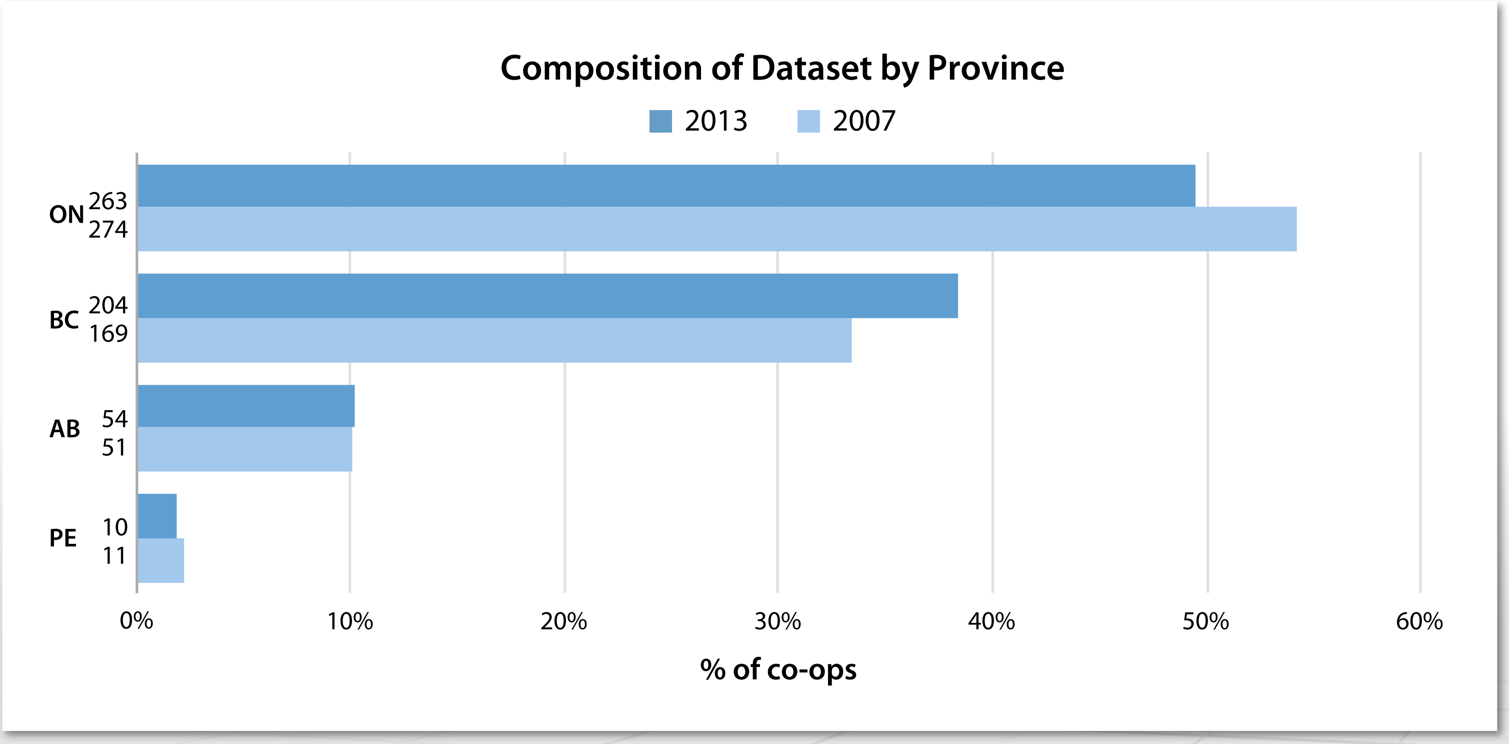
The past 7 years have seen little change in the breakdown of the Agency's portfolio by program.

Table 1: Portfolio Distribution by Program

	No. of Clients		% of Clients	
Program	**2013**	**2007**	**2013**	**2007**
S27-61	52	54	10%	11%
S95	327	306	62%	61%
ILM	131	126	25%	25%
Multiple	16	14	3%	3%
Urban Native/PEI NP	5	5	1%	1%
Total	**531**	**505**	**100%**	**100%**

Portfolio Profile: Provincial Distribution

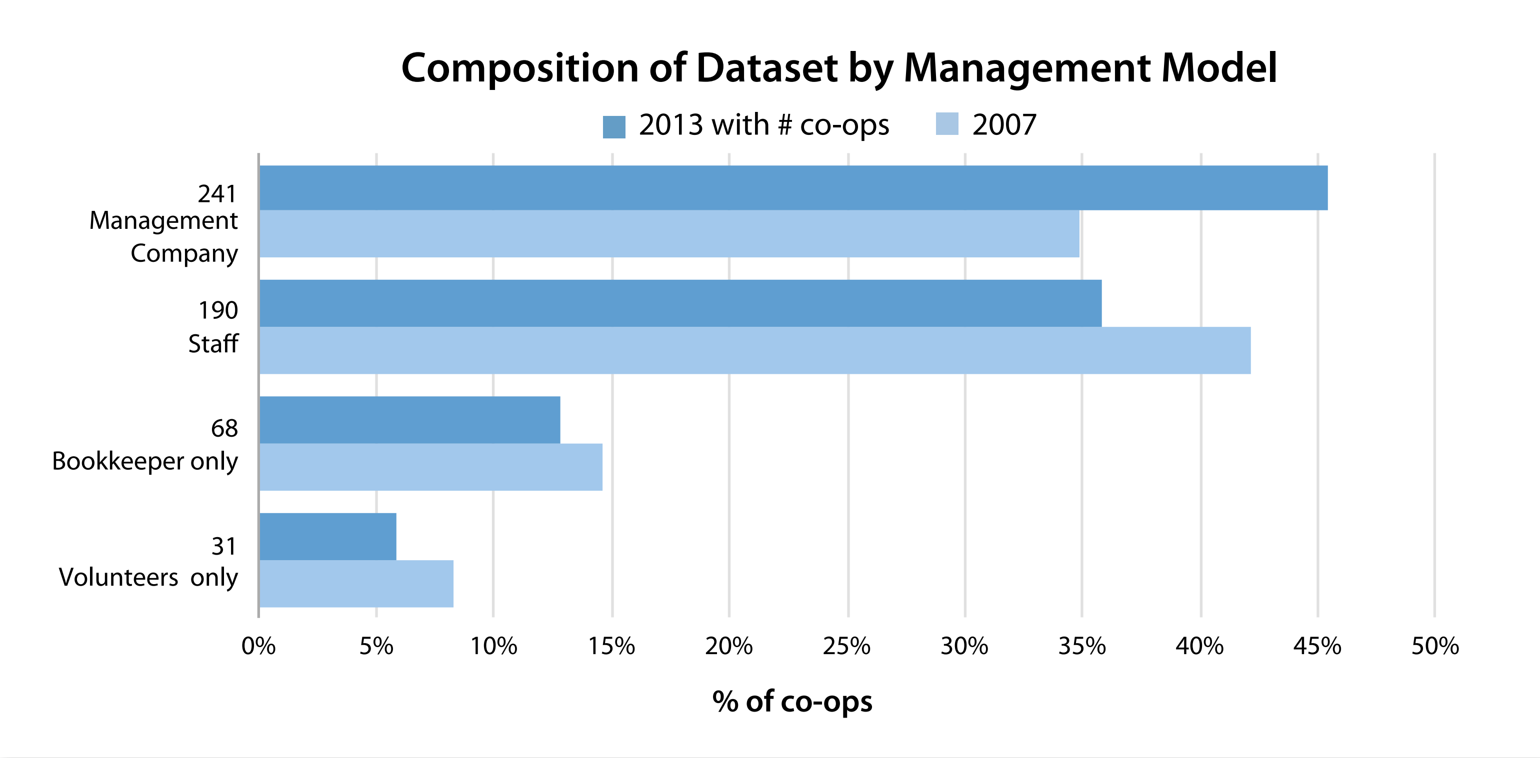
Owing to new clients from B.C. and expiring operating agreements in Ontario, the provincial distribution has changed.



Portfolio Profile: Distribution by Management Model

- More Agency clients are now using the services of property management companies.
- The change reflects both the addition of clients from B.C., where management companies have long predominated, and the increasing popularity of this management model in Ontario.

Portfolio Profile: Distribution by Management Model



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PORTFOLIO COMPLIANCE PROFILE

Approach

- The Agency's compliance-management program is intended to ensure that public funds expended under the co-operative housing programs are used as intended and properly accounted for.
- The Agency's agreement with CMHC calls for improving levels of operating-agreement compliance across the portfolio, measured in several ways.
- The data in this section reflect the compliance status of the entire Agency portfolio, not only of the dataset.

Approach

- As the Agency's compliance-variance system was broadly reassessed in 2008, the results from that year serve as the baseline for this review with the exception of mortgage and property-tax arrears, where 2007 is the baseline.
- Operating-agreement compliance failures are classified as a Breach or Material or Minor compliance variance, as defined in **Appendix B**.

Agreement Objectives

This review considers the performance of the portfolio against the **three key compliance objectives** set out in the Agency's agreement with CMHC:

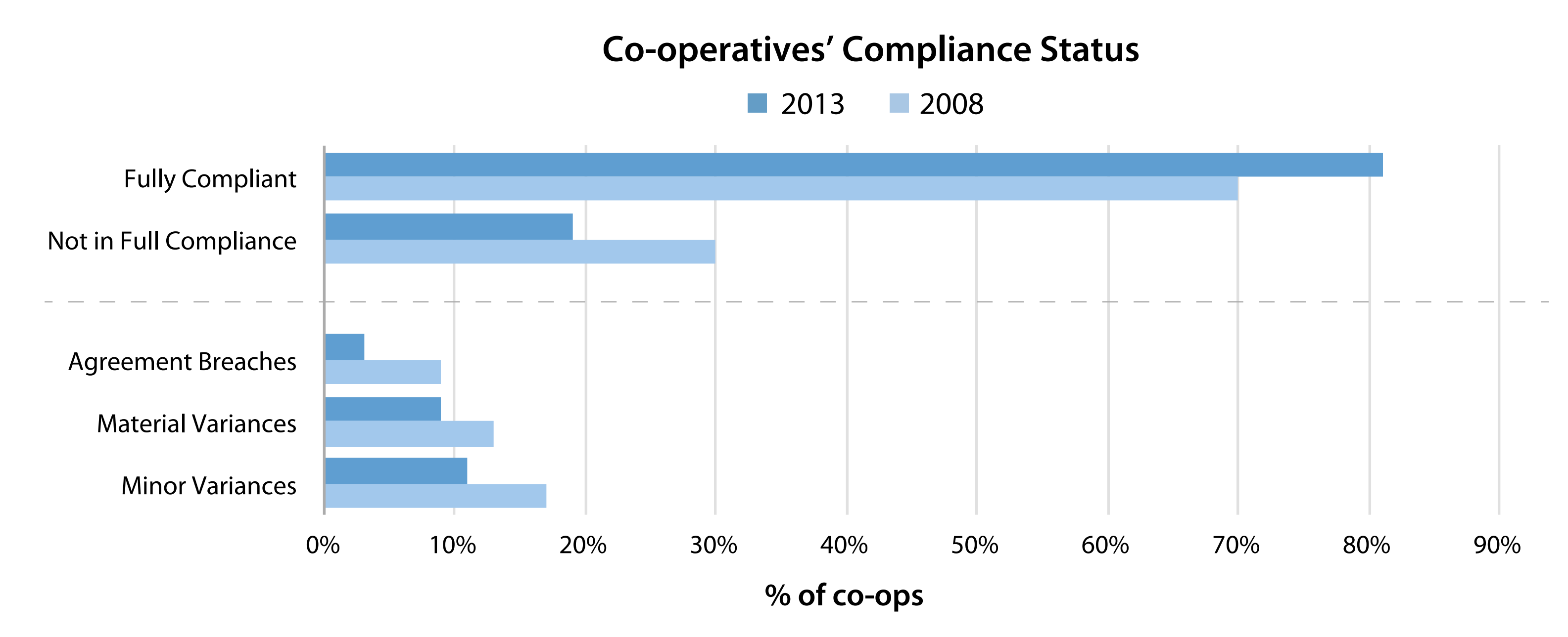
1. increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements
2. stable and, over time, improved levels of operating-agreement compliance within the portfolio, as evidenced by a decline in the number of operating-agreement breaches and material compliance variances
3. fewer co-operatives in the portfolio in default of their financial obligations, as evidenced by fewer instances of mortgage or property-tax arrears.

AGREEMENT OBJECTIVE

Increased program knowledge within the portfolio, as evidenced by increased compliance with project operating agreements

- As of 31 December 2013, 81% of Agency clients were fully compliant with their CMHC operating agreement, up from 79% a year earlier and 70% 5 years earlier.
- Compliance failures declined for all degrees of severity.

Portfolio Compliance Profile



Clients out of compliance with more than one obligation may appear in more than one category above. Workout-agreement variances are not included.

Portfolio Compliance Profile

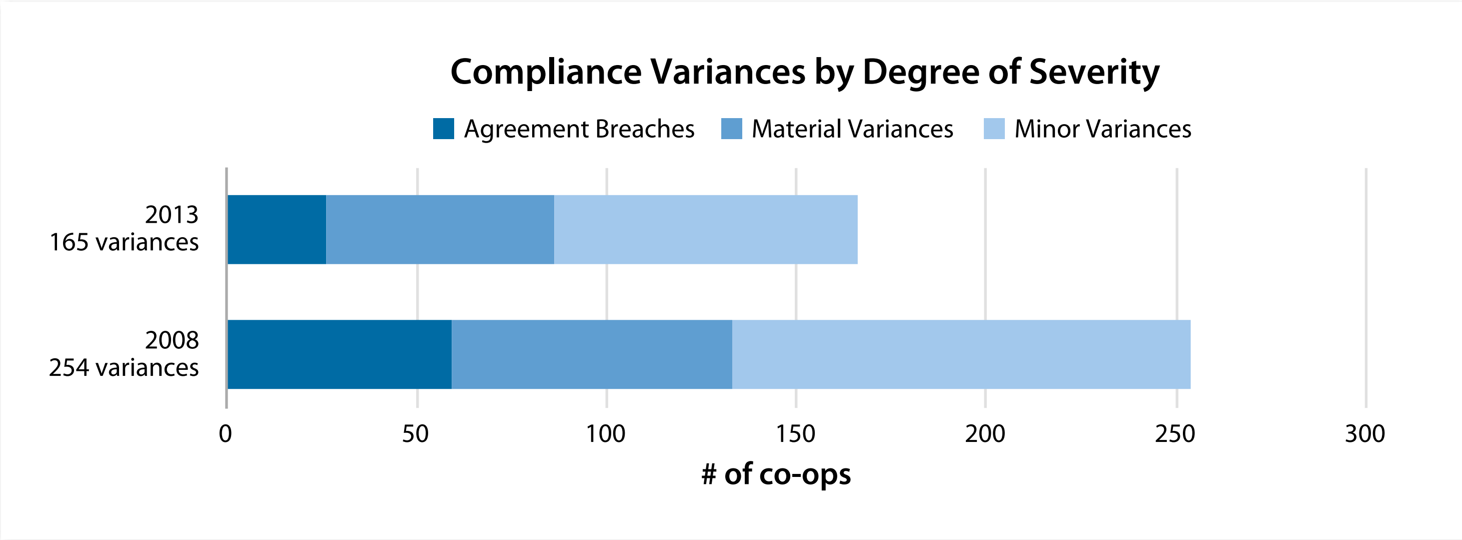
- At the end of 2013, failure to observe CMHC's Net Operating Revenue Policy accounted for 8% of all variances, up from 7% in 2012.
- As observance of the policy is not an operating-agreement requirement, the degree of non-compliance in the portfolio is overstated.
- Compliance with the policy has risen since 2008 and is stable compared with 2012 (14 clients out of compliance in 2013; 2012: 14; 2008: 27).

AGREEMENT OBJECTIVE

Stable and, over time, improved levels of operating-agreement compliance within the portfolio, as evidenced by a decline in the number of operating agreement breaches and material compliance variances

- Breaches and material compliance variances have fallen 11% since 2012 and 35% since 2008.
- Compliance variances of all kinds have fallen from 254 in 2008 to 165 at the end of 2013, despite an increase in the portfolio from 515 to 554 clients.

Portfolio Compliance Profile



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Portfolio Compliance Profile

Table 2: Breaches by Operating Agreement Obligation

	Clients	
	2013	**2008**
Annual Reporting	5	21
Mortgage Payments	7	13
Eligible Occupants	4	6
Subsidy Surplus Fund	8	17
Lending and Underwriting	1	0
Verification of Incomes	0	2
Total Breaches	**25**	**59**

Portfolio Compliance Profile

Table 3: Material Variances by Operating Agreement Obligation

	Clients	
	2013	**2008**
Capital Replacement Reserve	39	67
Adequate Regular Housing Charges*	16	0
Eligible Occupants	1	5
Income-Tested Housing Charges	1	0
Rent Supplement Assistance	2	0
Surcharges	1	0
Management Services	0	2
Total Material Variances	**60**	**74**

*Variance type added to system after 2008

Portfolio Compliance Profile

Table 4: Minor Variances by Operating Agreement or Policy Obligation		
	Clients	
	2013	2008
Capital Replacement Reserve	27	11
Annual Reporting	25	46
Net Operating Revenue Policy	14	27
Security of Tenure Fund	5	11
Subsidy Surplus Fund	2	14
Income-Tested Housing Charges	2	8
Audited Statements	2	0
Rent Supplement Assistance	1	0
Eligible Occupants	1	0
Lending and Underwriting	1	0
Verification of Incomes	0	4
Total Minor Variances	**80**	**121**

AGREEMENT OBJECTIVE

Fewer co-operatives in the portfolio in default of their financial obligations, as evidenced by fewer instances of mortgage or property-tax arrears

The number of co-ops with either mortgage arrears or tax arrears has fallen.

Table 5: Mortgage and Property-Tax Arrears

	2013		2007	
	Clients	% of Portfolio	Clients	% of Portfolio
Mortgage Arrears*	10	1.8%	11	2.1%
Property-Tax Arrears**	1	0.2%	3	0.6%

*2013 total includes 3 clients with second-mortgage arrears only.
**Excludes tax arrears remedied by the lender and added to the mortgage

PORTFOLIO RISK PROFILE

Approach

- A comprehensive risk assessment of every client is performed annually.
- The composite risk rating assigned (**Low, Moderate, Above Average or High**) reflects the Agency's considered view of the co-operative's current health and future prospects.
- See **Appendix C** for definitions of the risk ratings.
- The Agency's risk ratings are ultimately judgement-based, but are strongly informed by standardized tests performed for each client.

Approach

- Our information system generates a rating based on separate evaluations of the client's financial strength, current financial performance and physical condition.
- Further risk factors can trigger system ratings of Above Average or High.
- Agency staff take other information into account, including local market conditions, before assigning a final rating.
- Ratings are adjusted during the year in response to external developments or significant actions by the client.

Indicators of Success

- The Agency-CMHC agreement sets out **5 indicators** of success in the area of risk management.
- Each is looked at in turn on the following pages.
- We then discuss the indebtedness of the portfolio as it bears on CMHC's risk.

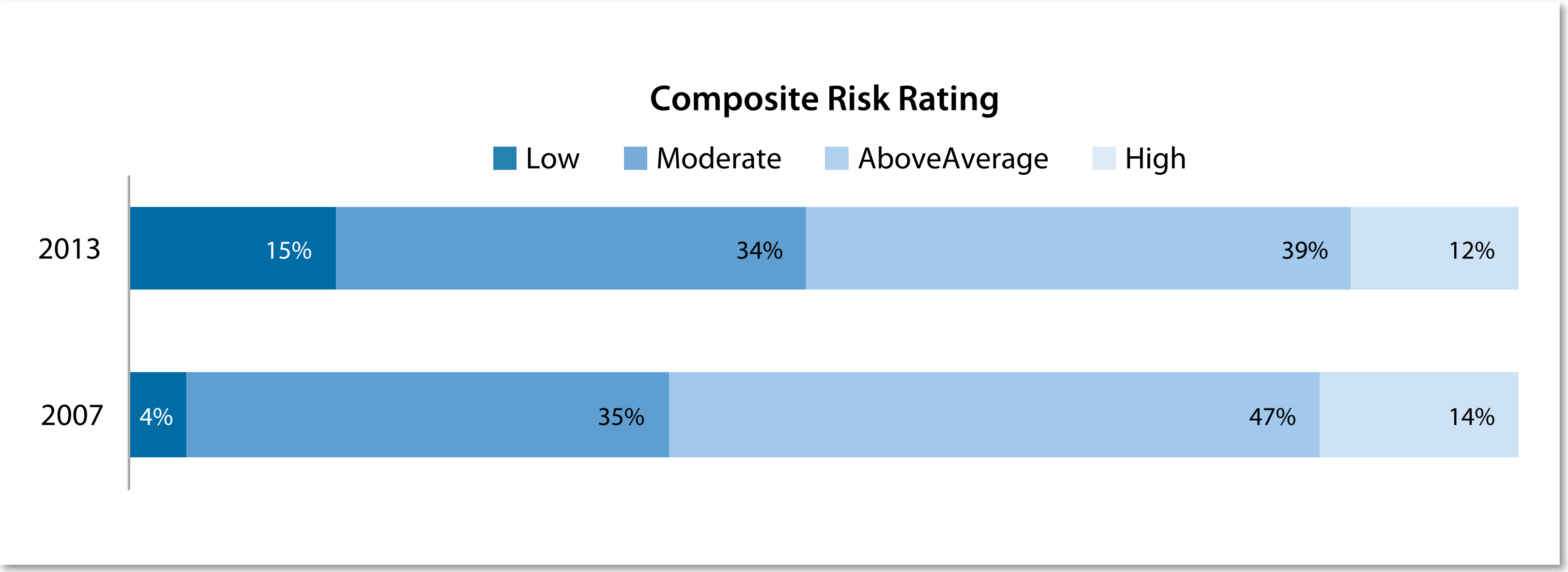
INDICATOR 1

AGREEMENT OBJECTIVE

Increased awareness by co-operatives of their own performance, as evidenced by an improvement in the overall risk profile of the portfolio

- The risk profile of the portfolio improved markedly from 2007 to 2013.
- Co-operatives with composite ratings of Above Average or High comprised 51% of our portfolio in 2013, down from 61% in 2007.
- Clients with a positive composite rating of Low or Moderate now make up half the portfolio (49%, up from 39% in 2007)

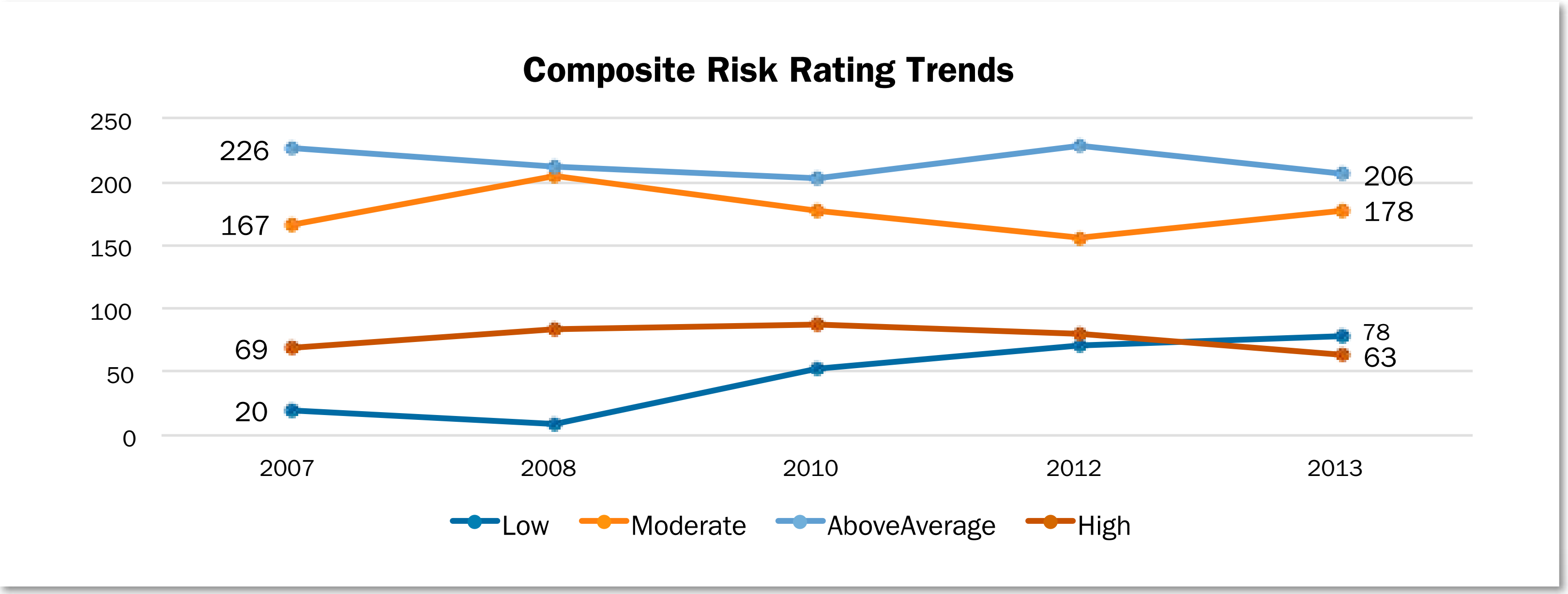
Portfolio Risk Profile



Portfolio Risk Profile

- After initially increasing, the number of clients carrying a High rating has fallen since 2010.
- The number of clients with a Low rating has nearly quadrupled.
- The number of clients with a Moderate rating has risen since 2012 and the number with an Above Average rating fallen.

Portfolio Risk Profile



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Clients Initially Held Back

- The risk profile of the portfolio has improved despite an influx of clients initially held back at CMHC while a financial workout was developed.
- The 6 years following 2007 saw a net portfolio increase of 12% (14 clients left; 69 arrived). Of the new clients, 67 had been assessed by the end of 2013.
- Of these, 89% (60 clients) started with a rating of High or Above Average.

Clients Initially Held Back

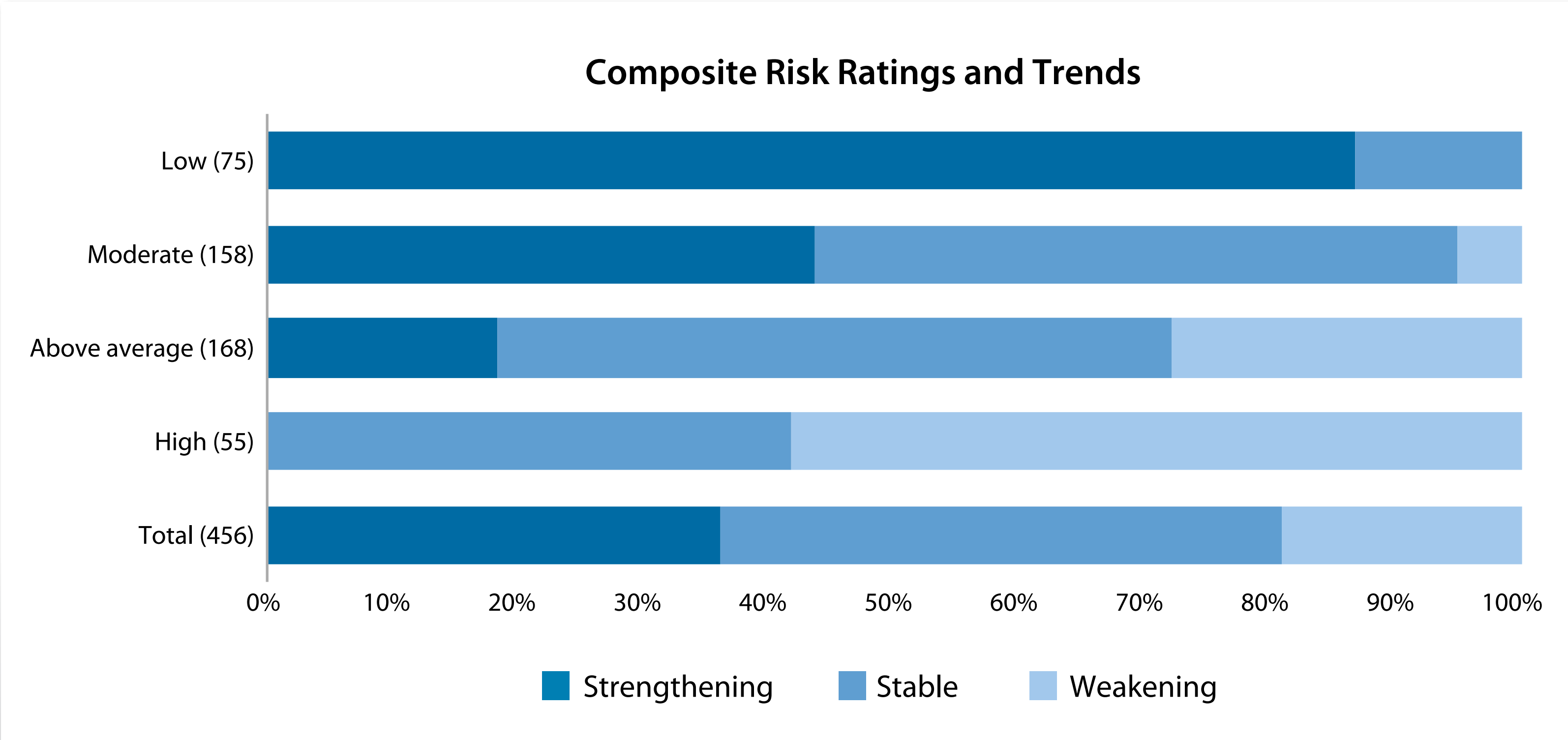
The risk profile of these late-arriving clients is improving:

- of the 20 clients with an initial composite risk rating of High, 8 have seen their rating improve to Above Average or Moderate
- of the 40 new clients with an initial rating of Above Average, 9 have achieved a Low or Moderate rating
- 3 clients with High, Above-Average or Moderate risk ratings now have a risk rating of Low.

Risk Trend

- The annual risk assessment includes assigning clients a risk trend of Strengthening, Stable or Weakening.
- 81% of clients have an assigned risk trend of Stable or Strengthening.
- After declining in 2012, the proportion of clients with a High composite risk rating who were assigned a trend of Weakening rose in 2013.
- A Weakening trend means that the client has risk factors to attend to. Default risk may not have increased materially.

Risk Trend


Composite Risk Ratings and Trends
Low (75)
Moderate (158)
Above average (168)
High (55)
Total (456)
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Strengthening
Stable
Weakening

INDICATOR 2

AGREEMENT OBJECTIVE

Improvement in the overall risk profile of the portfolio, as evidenced by a declining number of co-operatives rated High and a stable or growing number of co-operatives rated Low or Moderate

As the table below shows, 2013 results show considerable improvement over the base year and, in the case of co-ops rated High risk, 2010.

Table 6: Composite Risk Rating as Percentage of Dataset

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
High	12%	15%	17%	16%	14%
Low or Moderate	49%	42%	44%	42%	40%

INDICATOR 3

AGREEMENT OBJECTIVE

Increasing percentage of co-operatives that are underperforming but are not under a workout arrangement returned to financial health without recourse to cash injection funding from CMHC Insurance or Enhanced Assistance ("underperforming" and "financial health" as determined through the Agency's risk-rating system and defined, respectively, as having a score of Poor on either of the liquidity or net-income Indicators or having a score of Fair on both and being behind with scheduled mortgage or property-tax payments, and as having a score of at least Fair on both the liquidity and net-income indicators and having no scheduled mortgage or property-tax payments overdue)

Underperformers

- Of the underperformers that had returned to financial health by the end of 2013, 94% did so without receiving Enhanced Assistance or a cash-injection loan from CMHC Insurance (2012: 97%).
- More underperforming clients returned to financial health, with or without CMHC's assistance, in 2013 than in the previous year (2013: 75%; 2012: 52%).
- As the next table shows, 142 co-operatives were first identified as underperforming in 2007, 2008, 2009 or 2010 and had no workout agreement at the time.*

* Clients first identified as underperforming in later years are excluded from the analysis since co-operatives normally take at least 3 years to return to financial health.

Underperformers

- Of these, 6 are no longer Agency clients. 107 (77% of those still clients) have now returned to financial health.
- Of the clients returned to financial health, 7 (5%) received either a cash injection from CMHC Insurance or Enhanced Assistance, 5 more than in 2012 (2; 2%). The increase comprises 2 clients with first-time workouts approved in 2013 and 3 that first returned to financial health in 2013. (Prior to 2013, these 3 received a workout after being identified as underperforming).

Underperformers

Table 7: Underperforming Co-operatives Returned to Financial Health						
Report Year	Number of Co-ops	Returned to Financial Health		Not Yet Returned to Financial Health		No Longer Clients
		No CMHC Assistance	CMHC Assistance	No CMHC Assistance	CMHC Assistance	
2007	69	44	7	11	3	4
	100%	64%	10%	16%	4%	6%
2008*	31	22	0	8	0	1
	100%	71%	0%	26%	0%	3%
2009*	26	22	0	3	0	1
	100%	85%	0%	12%	0%	4%
2010*	16	12	0	4	0	0
	100%	75%	0%	25%	0%	0%
Total	142	100	7	26	3	6
	100%	70%	5%	19%	2%	4%

* Note: Co-operatives newly identified in the report year as underperforming

Underperformers

- The trends for underperformers are positive:
  - 74% and 71% of the 2007 and 2008 cohorts, respectively, have returned to financial health (2012: 57%; 63%).
  - 85% of the 2009 (2012: 85%) and 75% of the 2010 cohort of underperformers have returned to financial health.
- This improving trend should continue throughout 2014 and into the future.

Underperformers

- We expect that clients will continue to strengthen their financial position by increasing
  - their revenues, and
  - their capital replacement-reserve contributions.
- Both tactics are needed to improve longer-term performance against this indicator.

INDICATOR 4

AGREEMENT OBJECTIVE

Improved financial health of the portfolio, as evidenced by an increasing percentage of co-operatives with a Good or Excellent liquidity ratio and an increasing percentage of co-operatives with a Good or Excellent net-income ratio

The next table shows the distribution of Liquidity and Net-Income Ratios from 2007 to 2013.

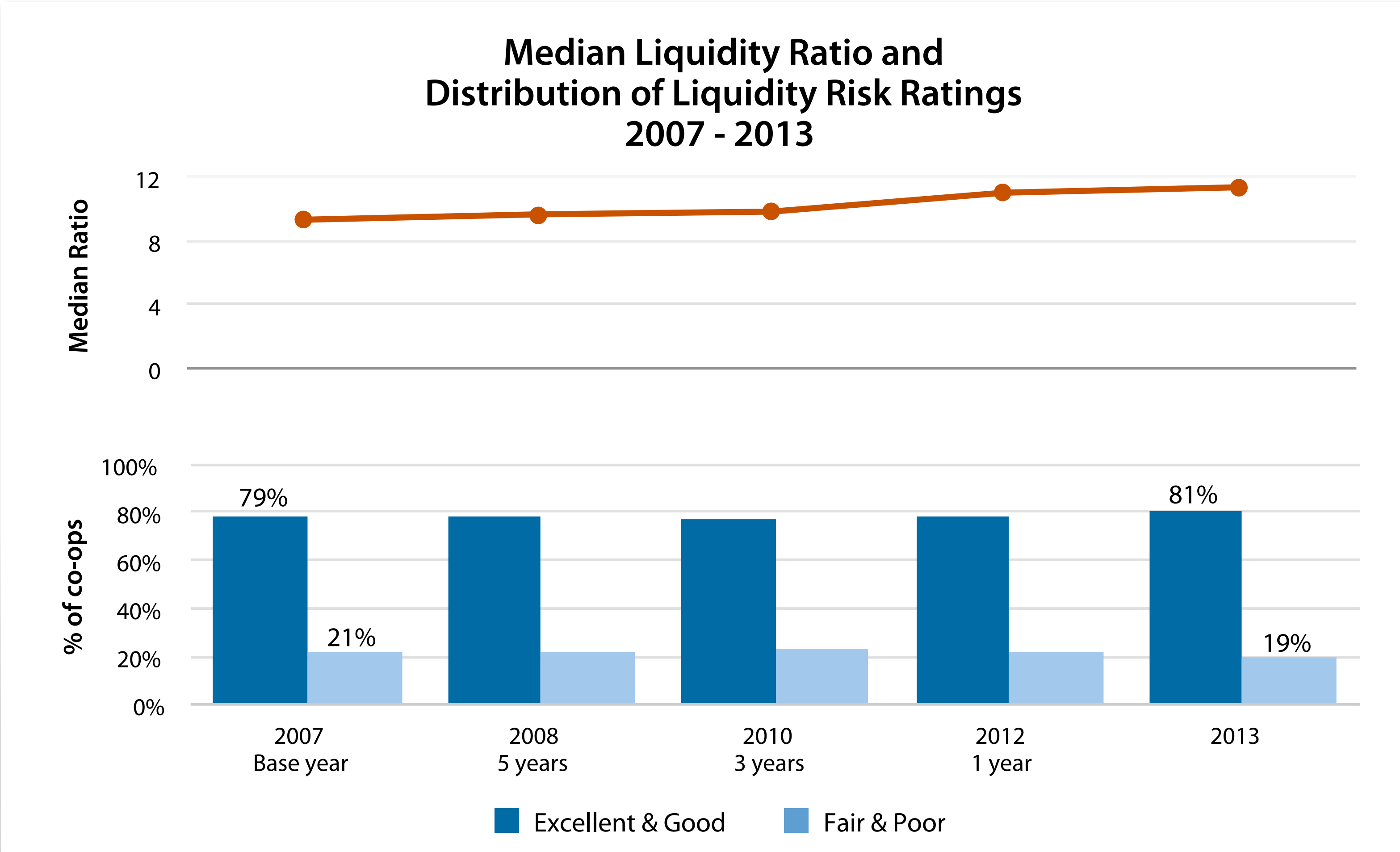
Table 8: Distribution of Liquidity and Net-Income Ratios

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Good or Excellent Liquidity Ratio	81%	79%	77%	78%	79%
Good or Excellent Net-Income Ratio	62%	55%	51%	50%	55%
Both Indicators Good or Excellent	57%	50%	44%	46%	50%

Portfolio Risk Profile

- 2013 saw a substantial improvement in the financial health of the portfolio in comparison to the 2007–2010 period, during which the proportion of clients with Good or Excellent ratios declined for both Liquidity and Net Income.
- The proportion of clients with a Good or Excellent Net-Income Ratio and those with a Good or Excellent rating on both the Liquidity and Net-Income indicators has grown by 7 percentage points since 2007.
- On the surface, 2013 and 2007 Liquidity ratings are little different, but a closer look shows an improving trend.

Portfolio Risk Profile



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Liquidity Ratio

- Between 2007 and 2013, the median Liquidity ratio for the total portfolio rose from 9.2 to 11.4.
- Both the 2007 and 2013 median scores were in the Excellent range.
- The improvement took place mainly in the Excellent category, as the table below shows.

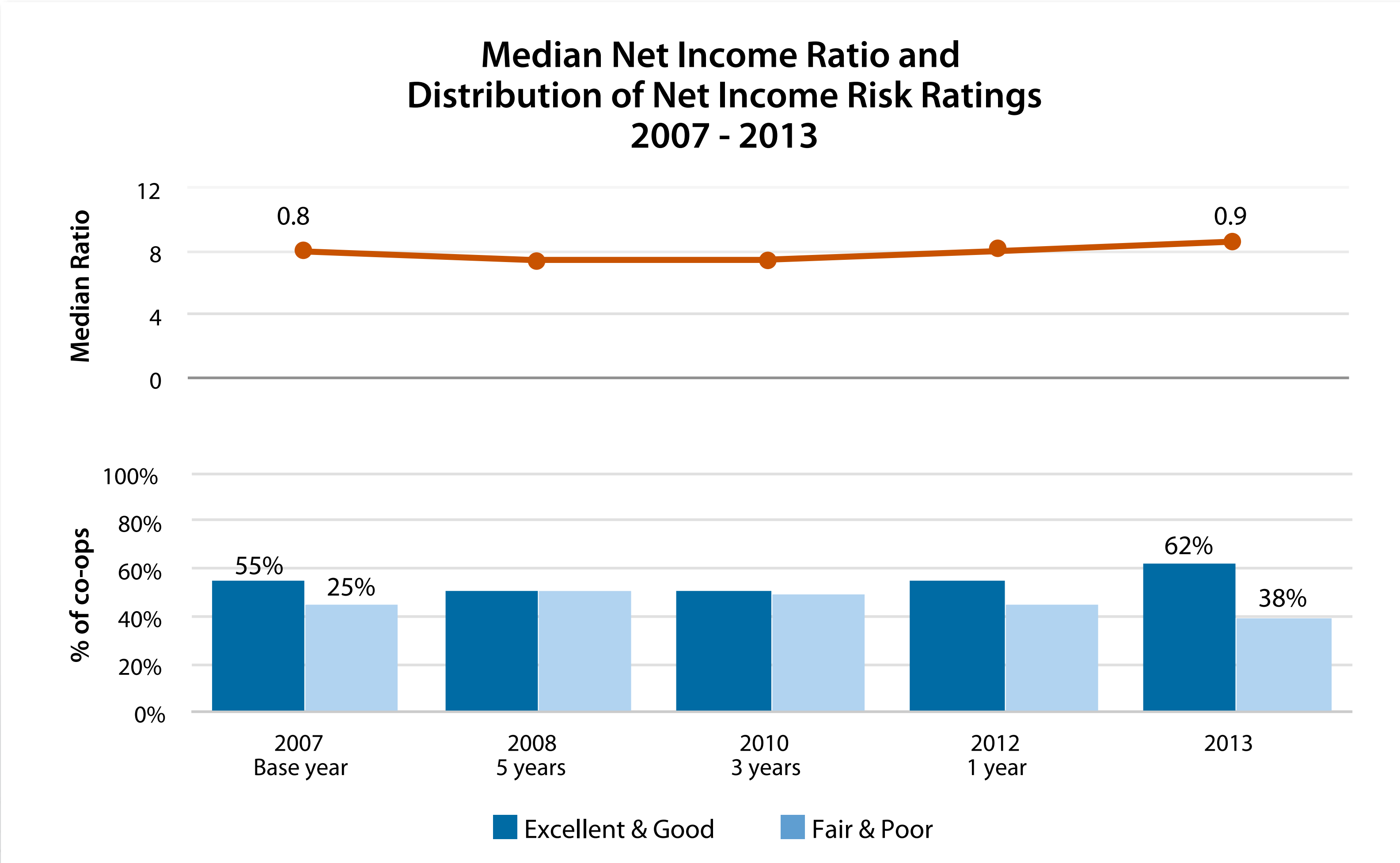
Table 9: 2007 to 2013 Median Liquidity Score per Rating Category

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Excellent	15.3	14.9	14.0	14.0	13.9
Good	6.4	6.8	6.7	6.5	6.7
Fair	3.9	4.1	3.9	4.0	4.0
Poor	1.0	1.0	0.9	1.1	0.9
All Ratings	11.4	11.1	9.9	9.7	9.2

Net-Income Ratio

- The median Net-Income Ratio increased slightly from 2007 (0.8) to 2013 (0.9). This ratio falls in the Good range.
- Clients with a healthy Net-Income rating (scoring Good or Excellent) made up 62% of the portfolio in 2013, up 7 percentage points from 2007.
- In 2013 38% of Agency clients had a Fair or Poor Net-Income rating, compared with 45% in 2007. The percentage of clients rated Fair has risen (2012: 29%; 2007: 26%), while that of clients rated Poor has gone down (2013: 10%; 2007: 19%)

Net-Income Ratio



INDICATOR 5

AGREEMENT OBJECTIVE

Improved physical condition of the stock, as evidenced by a stable or growing number of co-operatives with a physical-condition rating of Good or Excellent and a declining number of co-operatives with a physical-condition rating of Poor.

The next table shows the distribution of physical-condition ratings from 2007 to 2013.

Table 10: Distribution of Physical-Condition Ratings

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Good or Excellent Physical Condition	81%	81%	81%	78%	77%
Poor Physical Condition	1%	1%	1%	1%	1%

Physical Condition

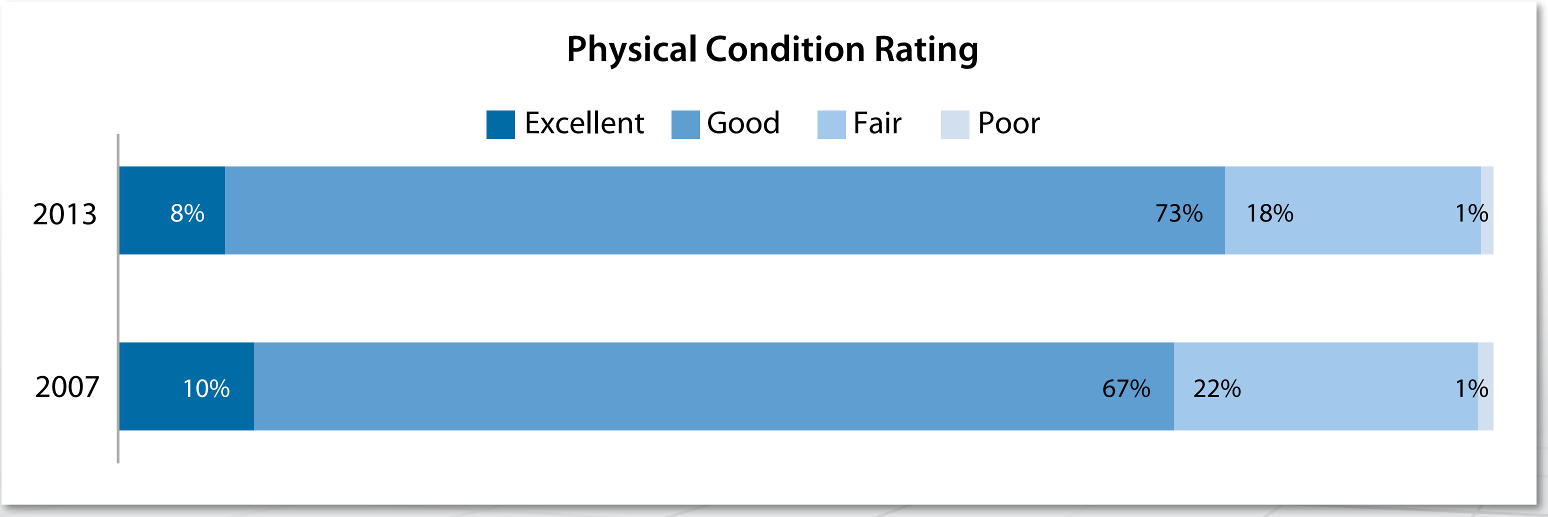
- Physical-condition ratings for the portfolio are relatively stable, despite aging buildings.
- In 2013, 81% of co-operatives received a positive (Good or Excellent) physical-condition rating, up from 78% five years earlier and 77% in 2007.
- Although the number of co-operatives with an Excellent rating has declined since 2007, mainly as a result of the portfolio's increasing age, some positive trends are apparent.

Physical Condition

- In 2007 10% of the portfolio was rated Excellent. This fell to 4% in 2008.
- After a further drop to 2% in 2009, the proportion of clients with an Excellent physical-condition rating rose to 8% in 2012, where it remained in 2013.
- In addition, more co-operatives were rated in Good condition in 2013 than 6 years earlier.

Physical Condition

- The proportion of co-operatives rated in Fair physical-condition declined from 22% in 2007 to 19% in 2013, owing to ratings that increased to Good or Excellent.
- Only 1% of clients have a rating of Poor, a percentage that has remained stable over the past 6 years.



Influence of Net-Income and Liquidity Ratios

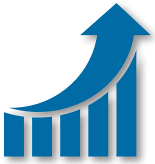
- In the medium and long term, a co-operative's financial performance will strongly influence its physical condition.
- Clients with a Net-Income Ratio of Excellent made a median annual contribution to their capital-replacement reserve of $2,323 per unit in 2013 (1.3% of their insured replacement value).
- However, clients with a Net-Income Ratio of Poor made a median contribution of only $409 per unit (0.2% of their insured replacement value).

Net-Income and Liquidity Ratios

- Clients with a Liquidity Ratio of Excellent made a median annual reserve contribution of $1,731 per unit in 2013 (1.0% of their insured replacement value).

- Clients with a Liquidity Ratio of Poor made a median contribution of only $574 per unit (0.4% of their insured replacement value).

Outstanding Debt



- CMHC's risk declines steadily as housing co-operatives repay their mortgage loans.
- As the following table shows, total mortgage debt in the portfolio fell significantly between 2007 and 2013, despite the addition of many new clients with large workout loans.
- As the Agency's risk-analysis system does not take into account the portfolio's declining indebtedness, CMHC's overall risk is overstated.

Outstanding Debt

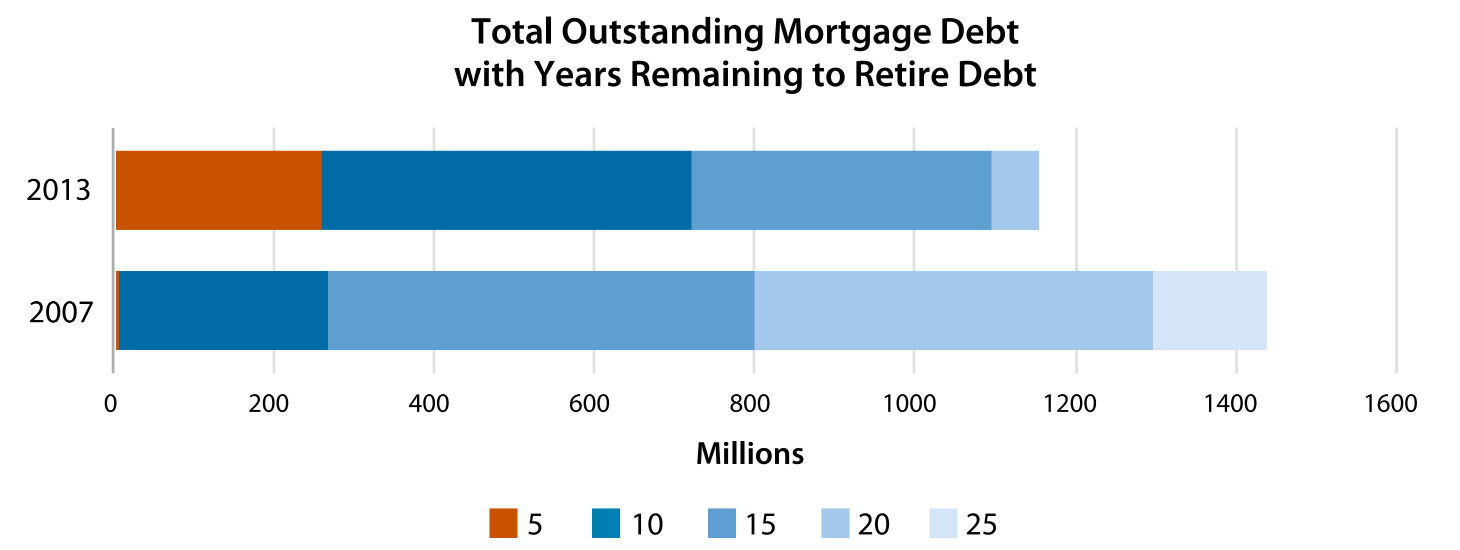
Table 11: Total Mortgage Debt for All Agency Clients			
	2013	**2012**	**2007**
Mortgage Debt including Workout Loans	$1,143 M	$1,201 M	$1,444 M
Total Units	33,811	32,181	30,655
Mortgage Debt per Unit	$33,805	$37,290	$47,077

Note: 2007 and 2012 dollar amounts have not been indexed.

- The mortgage debt shown is drawn from valid AIRs on hand when this report was prepared. It comprises all debts secured by a charge against properties operated under a CMHC program, including workout loans and deferred interest charges on those loans. Total debt is slightly understated for 2012 and 2013, as a small number of AIRs for those years have not yet been filed (2013: 17; 2012; 37).

Outstanding Debt

The graph below shows the total mortgage debt outstanding in the portfolio, including workout loans, in relation to the years remaining until the debt must be retired, grouped in 5-year periods.



Note: Only 6 co-operatives were due to retire their mortgage debt within 5 years as of 2007.

End of Operating Agreements

Somewhat offsetting the decline in CMHC's risk as overall indebtedness in the portfolio falls is the weaker risk profile of the newest of the 3 main programs the Agency administers.

- One-third of client operating agreements will end in the next 5 years, 40% in 5 to 10 years and the remainder in more than 10 years.
- A risk rating of Low or Moderate was earned by
  - 63% of co-ops whose operating agreements end in 0-3 years and
  - 52% of those with agreements ending in 3-5 years.

End of Operating Agreements

- Of co-ops whose operating agreements end in 0-5 years, the majority were rated Moderate or Above Average in 2013.
- Most co-ops rated High risk are not due to pay off their mortgages for more than 5 years.

Table 12: Composite Risk Rating by Years Remaining Until the Mortgage is Repaid

	0-3		>3-5		>5-10		>10+		Total
Low	9	14%	24	21%	29	14%	16	12%	78
Moderate	33	50%	35	31%	64	30%	48	35%	180
Above Average	19	29%	49	43%	87	41%	54	39%	209
High	5	8%	6	5%	32	15%	21	15%	64
Total	**66**	**100%**	**114**	**100%**	**212**	**100%**	**139**	**100%**	**531**
	12%		21%		40%		26%		100%

CLIENT OPERATING PERFORMANCE

Approach

- The Agency's agreement with CMHC includes 3 indicators of success associated with better operating performance for Agency clients.
- This section of the review examines the first 2 indicators: cost-effective use of rent-geared-to-income assistance and improved management practices.
- The third indicator relates to fully funded replacement reserves, reviewed further on.

AGREEMENT OBJECTIVE:

More cost-effective use of rent-geared-to-income (RGI) assistance resulting from project operating efficiencies.

- The period from 2007 to 2013 saw a decline in rental arrears, bad debts and vacancy rates in the portfolio overall.
- Less revenue leakage implies greater operating efficiency.
- The result is a more effective use of rent-geared-to-income assistance, owing to less need to replace lost income through higher housing charges.

AGREEMENT OBJECTIVE:

Improved management practices, as evidenced by reduced occupancy-charge arrears and bad-debt expenses, vacancy losses and other relevant measures.

- The portfolio's performance as regards this indicator is examined against several specific elements of good management.
- These are
  - arrears and bad debts
  - directors in arrears
  - vacancy losses
  - insurance
  - spending on the physical plant

Arrears and Bad Debts

- Across the portfolio between 2007 and 2013, the median combined occupant arrears and bad-debt expense fell as a percentage of total occupants' share of housing charges from 0.9% to 0.6% (2012: 0.7%).
- Considered as a dollar amount, the median combined arrears and bad-debt expense has also seen a significant decline (2007: $77 per unit; 2013: $59 per unit) (2013 dollars).

Arrears and Bad Debts

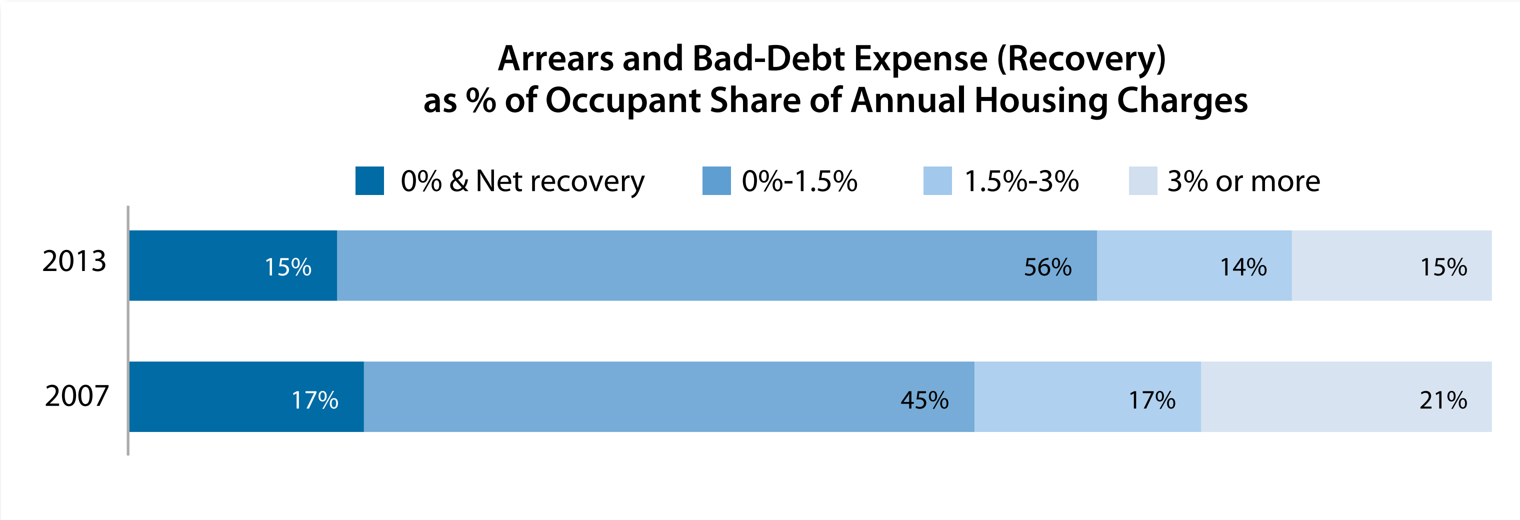
Table 13: Median Combined Arrears and Bad-Debt Expense (Recovery)					
	2013	**1 Year Ago 2012**	**3 Years Ago 2010**	**5 Years Ago 2008**	**Base Year 2007**
Median Combined Arrears and Bad-Debt Expense as a % of Occupant Share of Housing Charges	0.6	0.7	0.8	0.8	0.9
Median Combined Arrears and Bad-Debt Expense Per Unit	$59	$63	$71	$72	$77

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2013.

Arrears and Bad Debts

- Significant improvement is evident in
  - the growing percentage of Agency clients with a ratio of 1.5% or less (2013: 71% of clients; 2007: 62%)
  - the shrinking percentage with combined arrears and bad debts of 3% or more (15% of clients in 2013, down 6 points from 2007)
  - the decrease in median per-unit arrears and bad debts (2013: \$59; 2007: \$77)
- The 75th and 95th percentiles have followed a similar pattern.

Arrears and Bad Debts



Arrears and Bad Debts

Table 14: Median Arrears and Bad-Debt Expense (Recovery) per Unit		
	2013	**2007**
Median	$59	$77
75th Percentile	$160	$205
95th Percentile	$449	$624
Second Highest Amount	$1,349	$2,670
Highest Amount	$1,874	$5,567

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2013.

Arrears and Bad Debts

An analysis of the trends from 2007 to 2013 by management model for median combined arrears and bad debts shows a decline for every category except Paid Bookkeeper Only:

- **Management Company**—2013: $66; 2007: $92
- **Paid Staff**—2013: $63; 2007: $90
- **Paid Bookkeeper Only**—2013: $45; 2007: $43
- **Volunteers Only**—2013: $2; 2007: $36

Arrears and Bad Debts

- As in the past, volunteer-managed co-operatives have the lowest median rates of combined arrears and bad debts (0.0% of occupants' share of annual housing charges; $2 per unit).
- Despite an increase over time in the median ratio of combined arrears and bad debts for the Paid Bookkeeper Only category, it has the next best results (0.5%).
- As together these groups form only 19% of the portfolio, their influence on portfolio-wide results is modest.

Directors in Arrears

- Over time the portfolio has seen a marked decrease in the number of clients with members of their board of directors in arrears, reflecting the Agency's steady efforts to have clients address this problem.

- The number of co-ops reporting one or more directors owing at least $100 at year end dropped from 140 in 2007 to 69 in 2013 (2012: 105).

- The median of the average amount owed by all directors in arrears fell from $651 in 2007 to $588 in 2013 (constant dollars).

Directors in Arrears

Table 15: Directors in Arrears at Client Fiscal Year End					
	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Number of Clients Reporting Directors in Arrears	69	105	103	116	140
Percentage of Dataset	13%	19%	19%	22%	28%
Number of Directors	121	193	206	242	298
Total Owed by Directors	$112,328	$175,253	$204,443	$316,808	$387,632
Average per Indebted Director	$928	$908	$992	$1,309	$1,301
Average Arrears per Indebted Director: Median for Dataset	$588	$598	$664	$622	$651
Average Arrears per Indebted Director: Maximum for Dataset	$4,225	$9,668	$10,993	$10,097	$8,794

Note: Dollar amounts have been indexed as constant dollars to 2013. Clients with no directors who owe more than $100 are excluded.

Directors in Arrears

- As noted above, Agency clients have steadily improved their control of arrears and bad debts.
- Although the median ratio of arrears and bad debts has fallen for both co-ops with director arrears and those without, the former group's median ratio is 4 times higher than the latter's.

Table 16: Combined Arrears and Bad Debts Where Directors in Arrears

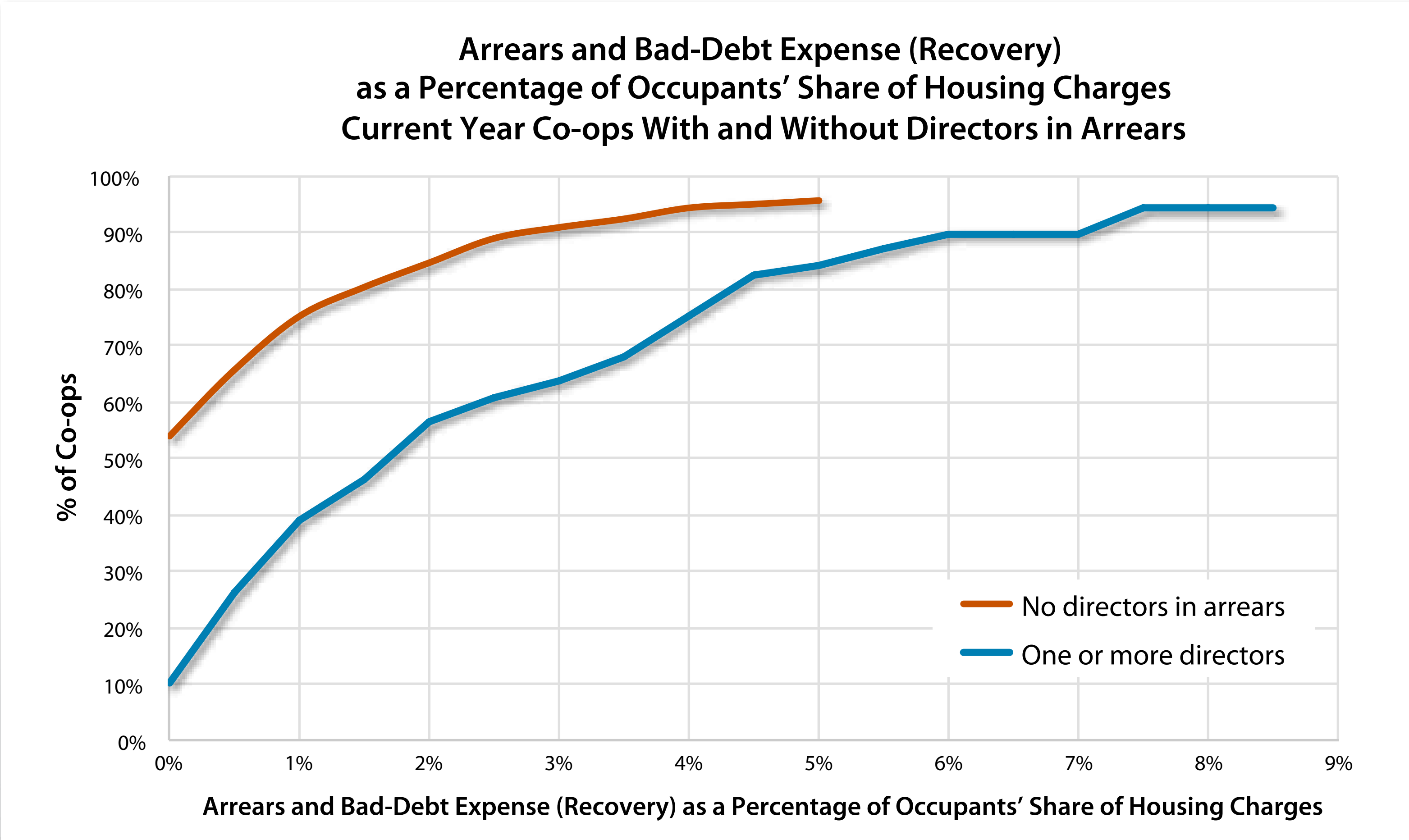
	2013	2007
Median Ratio: Full Dataset	0.6%	0.9%
Median Ratio: Co-ops with Director Arrears	2.0%	2.1%
Median Ratio: Co-ops without Director Arrears	0.5%	0.6%

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2013.

Directors in Arrears

- Similar results are apparent when total arrears and bad debts are viewed as dollars per unit:
  - co-ops with director arrears: $185 per unit
  - co-ops without director arrears: $48 per unit
- The next graph shows the correlation between directors in arrears and much higher member arrears and bad debts.
- Of co-ops with no director arrears (orange line), 53% had no member arrears. 75% had member arrears below 1% of annual occupant charges.
- Of co-ops with director arrears (blue line), 60% had member arrears greater than 1% and 36% arrears greater than 3.0% of annual occupant charges.

Directors in Arrears



Directors in Arrears

- The Agency strongly encourages clients to adopt by-laws or rules that preclude members in arrears from serving as directors.
- We are confident this is helping to reduce director arrears.
- The discussion itself is driving a change in the prevailing culture, even among co-ops that do not adopt the by-law.

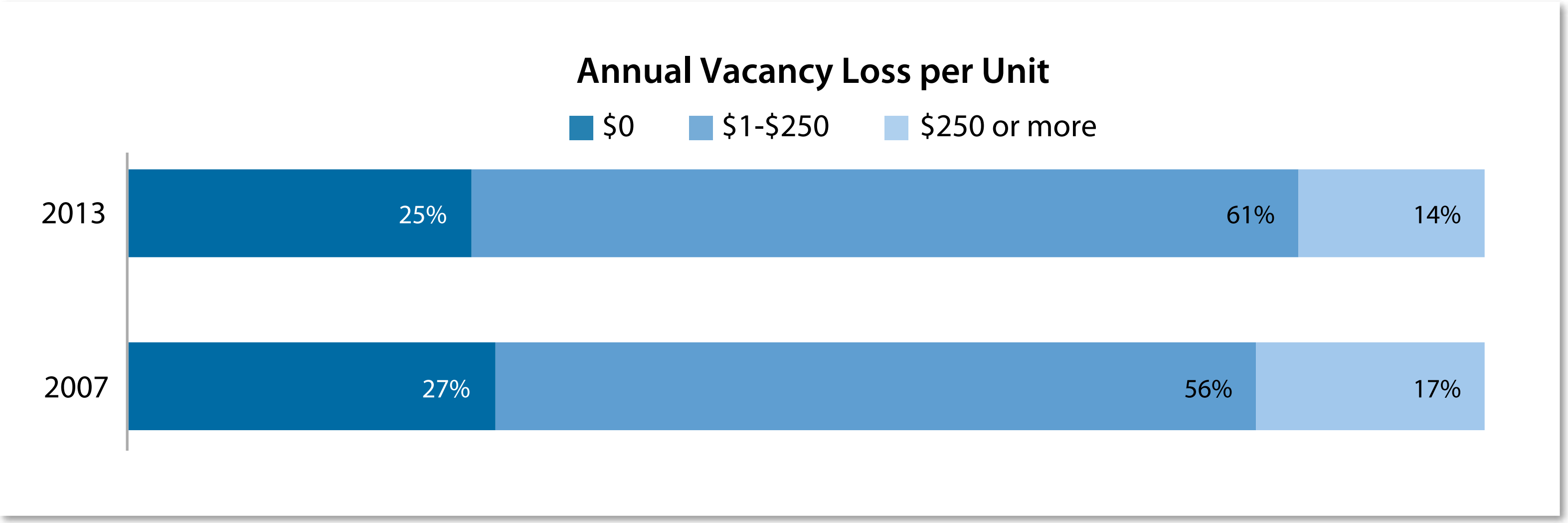
Vacancy Losses

- Vacancy losses usually represent the single greatest source of revenue leakage.
- High vacancy losses will quickly deplete a co-op's financial strength.
- The proportion of clients with no vacancy loss has fluctuated very slightly over the years, while the proportion reporting losses of $250 or more per unit (in constant dollars) has fallen.

Table 17: Annual Vacancy Loss

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
% of Clients with No Vacancy Loss	25%	27%	25%	28%	27%
% of Clients with Losses of $250 Per Unit or More	14%	16%	14%	17%	17%

Vacancy Losses



Vacancy Losses

- After rising from 2007 to 2010, median per-unit vacancy losses have returned to their 2007 level (constant dollars).
- Our analysis reveals similar fluctuations at the 75th percentile, with an overall improvement since 2007.
- The 95th percentile demonstrates a steady improvement over time.

Table 18: Per-Unit Annual Vacancy Loss in the Portfolio

	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Median	$36	$35	$41	$36	$36
75th Percentile	$133	$136	$142	$139	$145
95th Percentile	$502	$575	$588	$688	$836
Highest	$3,853	$6,395	$5,780	$3,728	$3,980

Note: Dollar amounts have been indexed as constant dollars to 2013.

Vacancy Losses

- Despite the growth in the portfolio, fewer co-operatives are reporting losses in excess of $1,000 per unit:
  - 20 had losses at this level in 2007
  - 6 years later, only 7 reported losses this high (2012: 9)
- The average per-unit loss reported among clients with any vacancy loss has also improved (2013: $175; 2007: $239) (constant dollars).
- Including co-ops without any vacancy loss, the average per-unit loss dropped from $170 in 2007 to $127 in 2013.

Vacancy Losses

Looking at absolute vacancy losses, the trend is very positive.

- Total losses have fallen steadily, despite a larger dataset.
- From 2007 to 2013, overall reported losses fell $1,890,841 in constant dollars.
- Total vacancy loss per client fell 37% ($4,163) from 2007 to 2013.

Table 19: Total Annual Vacancy Loss in the Portfolio

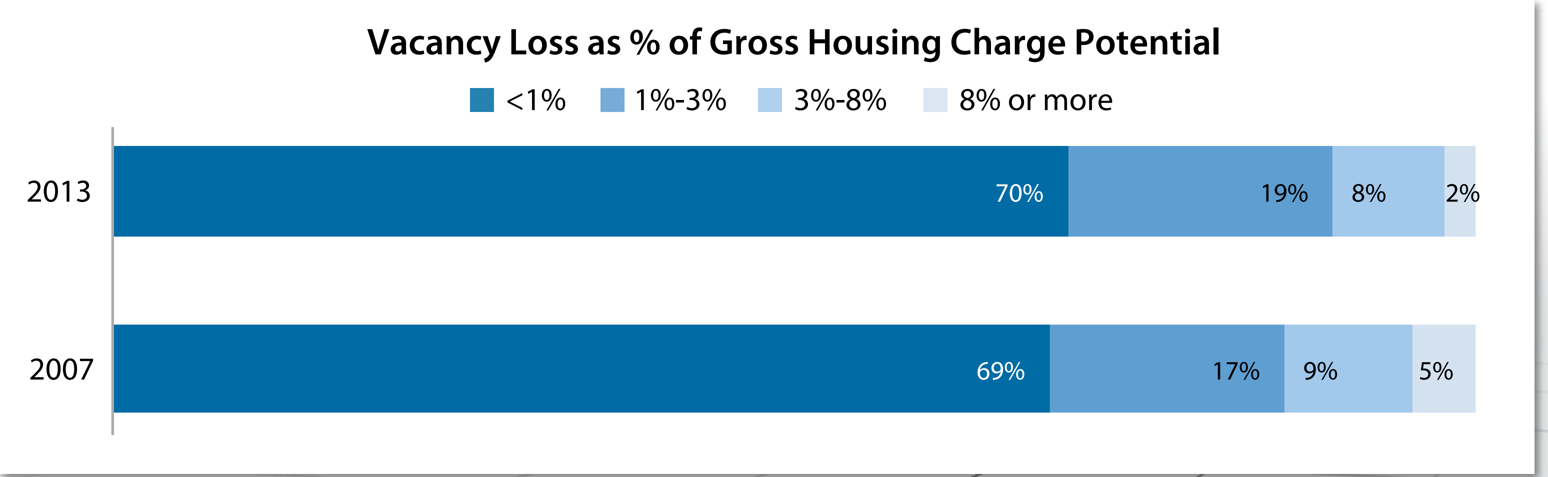
	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Total Reported Loss	$3,766,678	$4,358,226	$4,850,360	$5,407,265	$5,657,519
Clients in Dataset	525	540	522	509	499
Vacancy Loss per Client	$7,175	$8,070	$9,292	$10,623	$11,338

Note: Dollar amounts have been indexed as constant dollars to 2013.

Vacancy Losses

Vacancy loss is best measured as a ratio of a co-op's annual gross potential revenue from housing charges (GHCP). This indicator has also improved.

- The portion of the portfolio with vacancy losses below 1% of GHCP is stable (2013: 70%; 2007: 69%)
- The portion with losses of 8% of GHCP or more has dropped materially (2013: 2%; 2007: 5%).

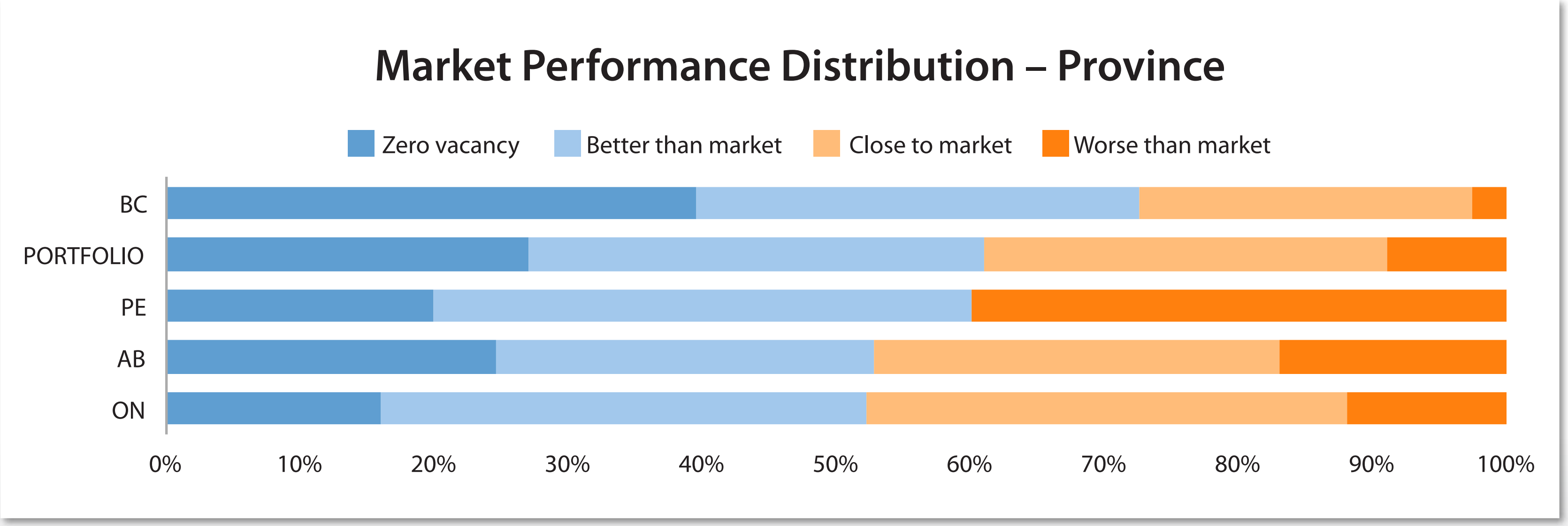


Vacancy Losses

- The true test of performance is how a co-op's vacancy loss compares to the vacancy rate in its local rental market.
- A strong majority of Agency clients continue to out-perform their local market.
- Looking at the portfolio as a whole, in 2013
  - 27% of Agency clients had no vacancy loss (2012: 28%; 2011: 25%)
  - 34% of the portfolio reported some vacancy loss but performed better than the local market (2012: 38%; 2011: 41%).
  - 9% posted worse-than-market vacancy losses, the same proportion as in 2012.

Vacancy Losses

However, results vary greatly from region to region.



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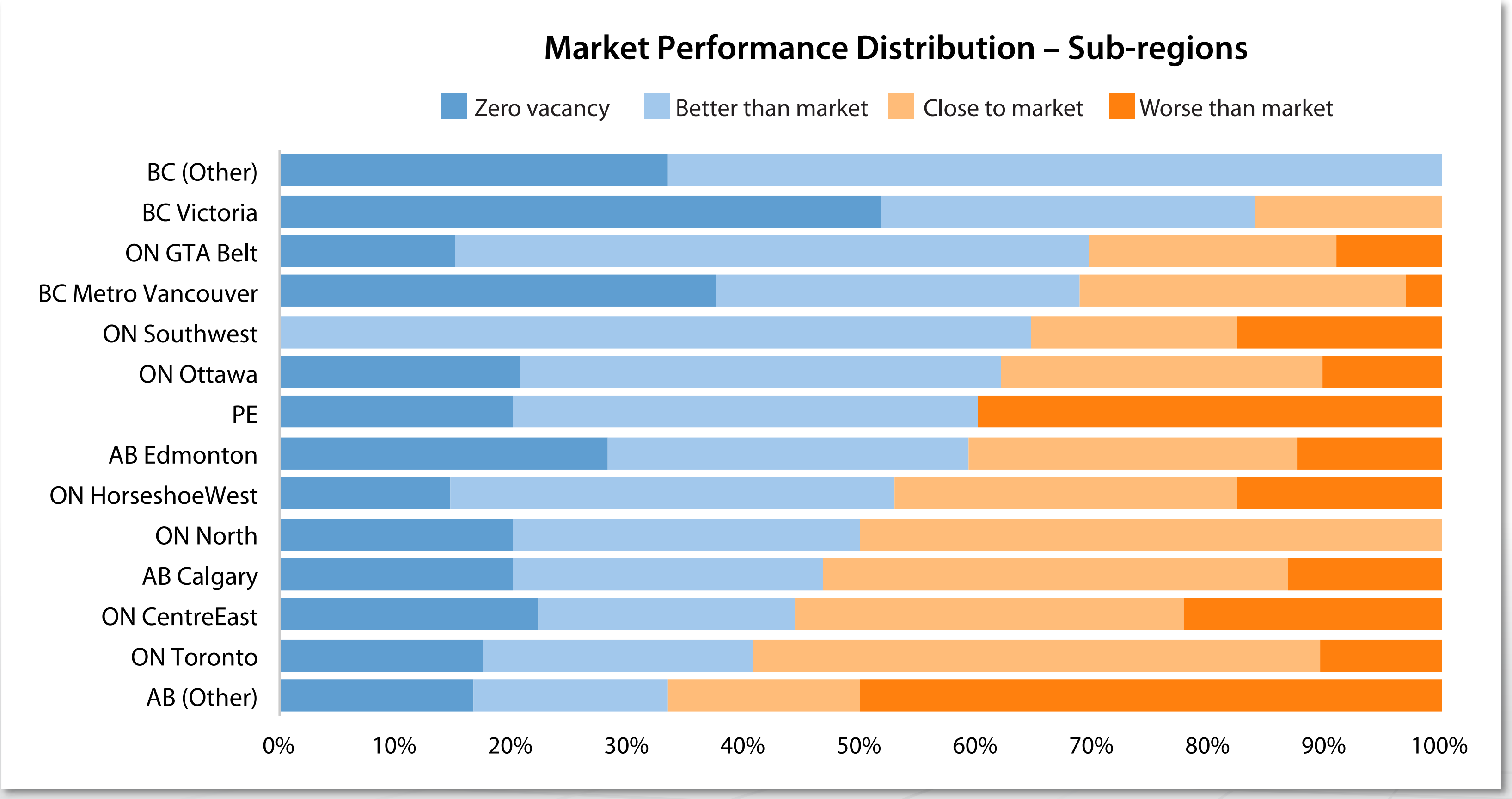
Vacancy Losses

- In 2013 British Columbia had the highest proportion of co-ops without any vacancy losses, at 40%.
- Alberta was next, at 25%.
- The percentage of Alberta clients with lower vacancy losses than their local market remained at 28% in 2013, dramatically below 2011, when it was 66%. Alberta rental markets have tightened sharply in recent years.
- Ontario co-operatives
  - with vacancy losses outperformed the market more often than B.C. co-ops (Ont.: 36%; B.C.: 33%)
  - were less likely to report no vacancy loss
  - tended to have vacancy losses close to market.

Vacancy Losses

- PEI co-operatives
  - performed worse than market more often than any other region (40%)
  - did better than the market 40% of the time
  - reported no vacancy loss in 20% of cases
  - have percentage losses that swing sharply from year-to-year, owing to their small size.
- The next graph illustrates the market performance of Agency clients in each of 13 sub-regions, pointing up the distinct differences among them.
- Caution is advised in reviewing the results for regions with very few co-operatives (PEI, Alberta other and B.C. other).

Vacancy Losses



Vacancy Losses

The next table compares client's vacancy losses to market vacancy rates from a different perspective. In this analysis we

- worked with data from CMHC's rental market reports to calculate a weighted market vacancy rate for each Agency client that reflected the client's unit mix
- assigned each Agency client to 1 of 3 market types based on the applicable weighted market vacancy rate:
  - low-vacancy market (adjusted market-vacancy rate below 1.5%)
  - moderate vacancy market (rate between 1.5 and 3.5%)
  - high vacancy market (rate of 3.5% or greater)

Vacancy Losses

- for each market type, calculated and compared
  - the median vacancy loss reported by Agency clients
  - the median weighted market vacancy rate

The results for the 2013 dataset were then compared with the results of the same analysis performed for the 2007 dataset.

Vacancy Losses

Two factors explain the change in the distribution of Agency clients from 6 years earlier:

- the addition to the Agency's portfolio of a large number of co-operatives located in the B.C. lower mainland
- changes in market vacancy rates.

Vacancy Losses

Table 20: Co-op Vacancy Losses Compared to Market Vacancy Rates

	Low Vacancy Markets	Moderate Vacancy Markets	High Vacancy Markets
2007			
Distribution of Agency Clients	35%	36%	28%
Median Co-op Vacancy Loss	0.5%	1.5%	2.4%
Median Weighted Market Vacancy Rate	0.5%	2.5%	5.6%
2013			
Distribution of Agency Clients	43%	39%	18%
Median Co-op Vacancy Loss	0.2%	0.4%	0.4%
Median Weighted Market Vacancy Rate	0.9%	2.2%	5.0%

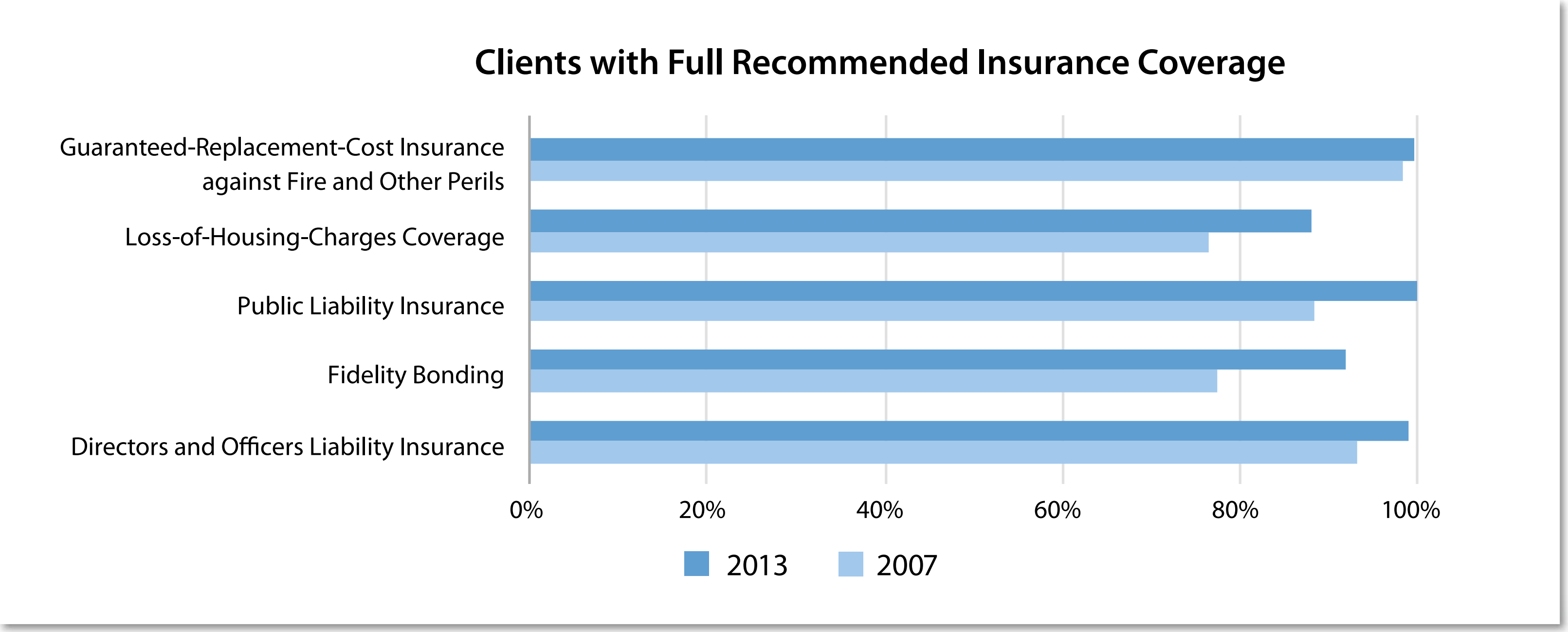
Vacancy Losses

- As the table shows, as a group, Agency clients out-performed the market in each market type, except for the low-vacancy markets of 2007.
- The median co-op vacancy rate has improved against the market in all 3 market types.
- Looking at co-ops in high-vacancy markets, in 2013
  - 25% had no vacancy losses
  - 69% had better-than-market losses (median loss of 0.6% compared to a median market vacancy rate for their group of 5.2%)
  - only 3% had worse-than-market rates (median loss of 9.2%)
- Together the 94% of co-ops with better-than-market losses in high vacancy markets pull down the median. Only 3% of the co-ops in high vacancy markets have rates worse than market (median loss 9.2%)

Insurance

- Lack of adequate insurance coverage is a significant risk factor for our clients.
- Early on, the Agency determined the types and levels of insurance that all housing co-operatives should have.
- The following graph shows the proportion of clients in the 2013 dataset that met these standards at the time of their AIR filing, compared with 2007.

Insurance

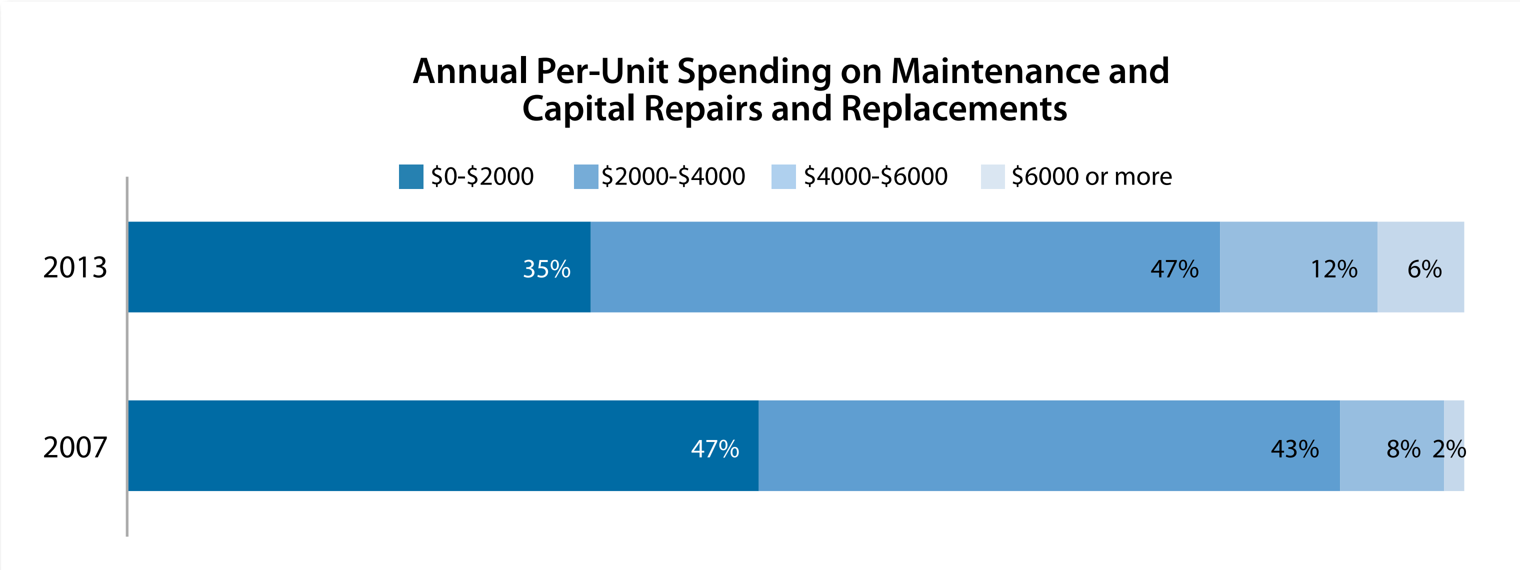


- Our relationship managers have persuaded a substantial number of under-insured clients to increase their coverage.
- As a result, the portfolio is now better protected than it was 6 years ago.

Spending on the Physical Plant

- The next graph looks at spending on maintenance and capital repairs and replacements in 2013, compared with 2007 (constant dollars).
- These two forms of spending on the physical plant are combined for a clearer picture of the care clients are taking of their chief asset.
- Combining maintenance and capital spending also normalizes the data for different accounting treatments.

Spending on the Physical Plant



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Spending on the Physical Plant

Table 21: Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements					
	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
$0 to $2,000	35%	36%	38%	47%	47%
$4,000 or more	18%	21%	18%	13%	10%

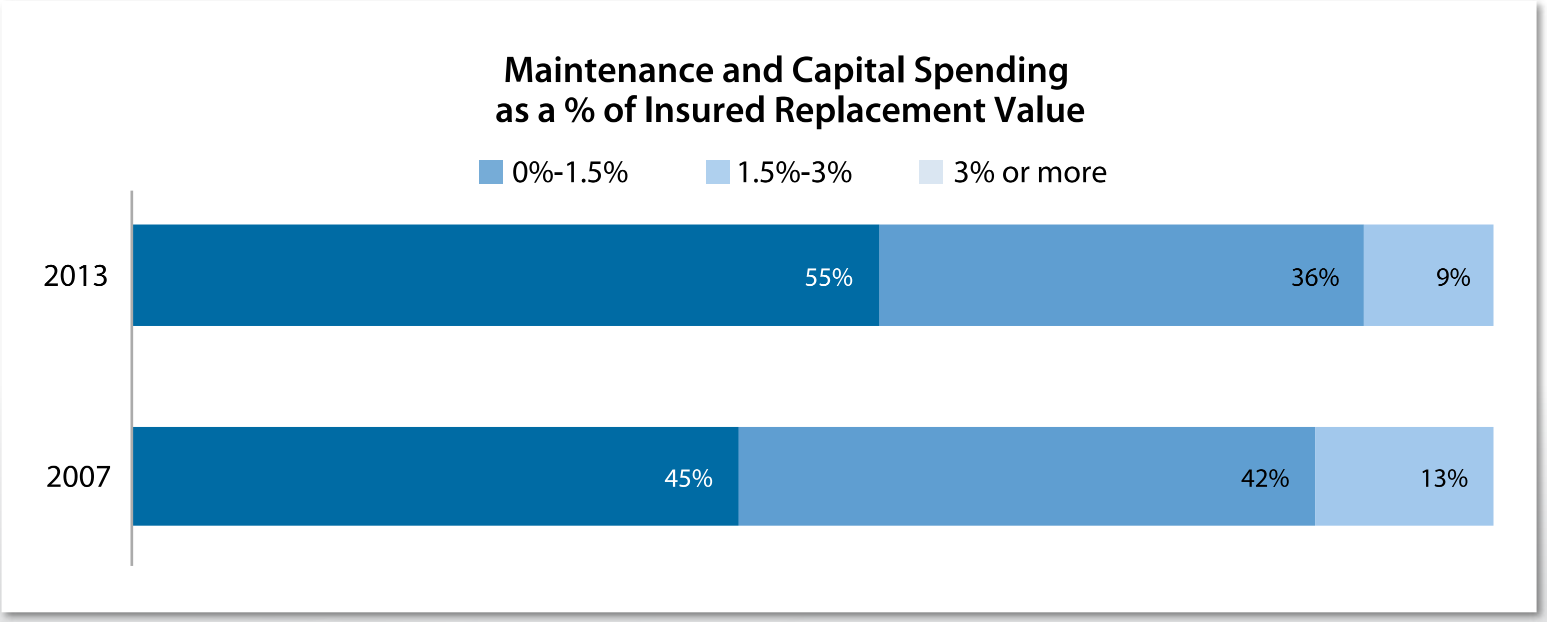
Previous-year amounts have been indexed to 2013 values in order to present all years in constant dollars.

Spending on the Physical Plant

- The percentage of Agency clients spending at the lowest level—under $2,000 per unit per year—continues to drop.
- The percentage spending at higher levels—$4,000 or more—has increased strongly since 2007 but fell back three points in 2013.
- The next graph shows maintenance and capital spending as a percentage of the insured replacement value of each client's buildings and equipment.
- This measure should normalize the data for different repair and construction costs, allowing comparisons from year to year, across the country and among building types. (Replacement values exclude land costs.)

Spending on the Physical Plant

- Looked at in this way, median rates of investment in the physical plant show a slight decline (2013: 1.4%; 2012: 1.5%, 2007: 1.6%)



Spending on the Physical Plant

- Agency data show that our clients' insurance companies increased their replacement-cost estimates from 2009 to 2013 by more than the general inflation rate.
- The total insured replacement value for clients that appear in both the 2007 and 2013 datasets rose 45% between the 2 time periods.
- Information from Statistics Canada indicates that, starting in 2009, construction costs moderated or declined, suggesting that insurance companies have been catching up.
- If replacement values were underestimated in 2007, the investment rates for that year in the previous graph are overstated in relation to 2013.

Spending on the Physical Plant

In absolute terms, co-operatives in the dataset continued to increase spending on their property in 2013.

Table 22: Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements					
	2013	**1 Year Ago 2012**	**3 Years Ago 2010**	**5 Years Ago 2008**	**Base Year 2007**
Median for Dataset	$2,466	$2,440	$2,337	$2,098	$2,069

Note: Dollar amounts have been indexed as constant dollars to 2013.

Spending on the Physical Plant

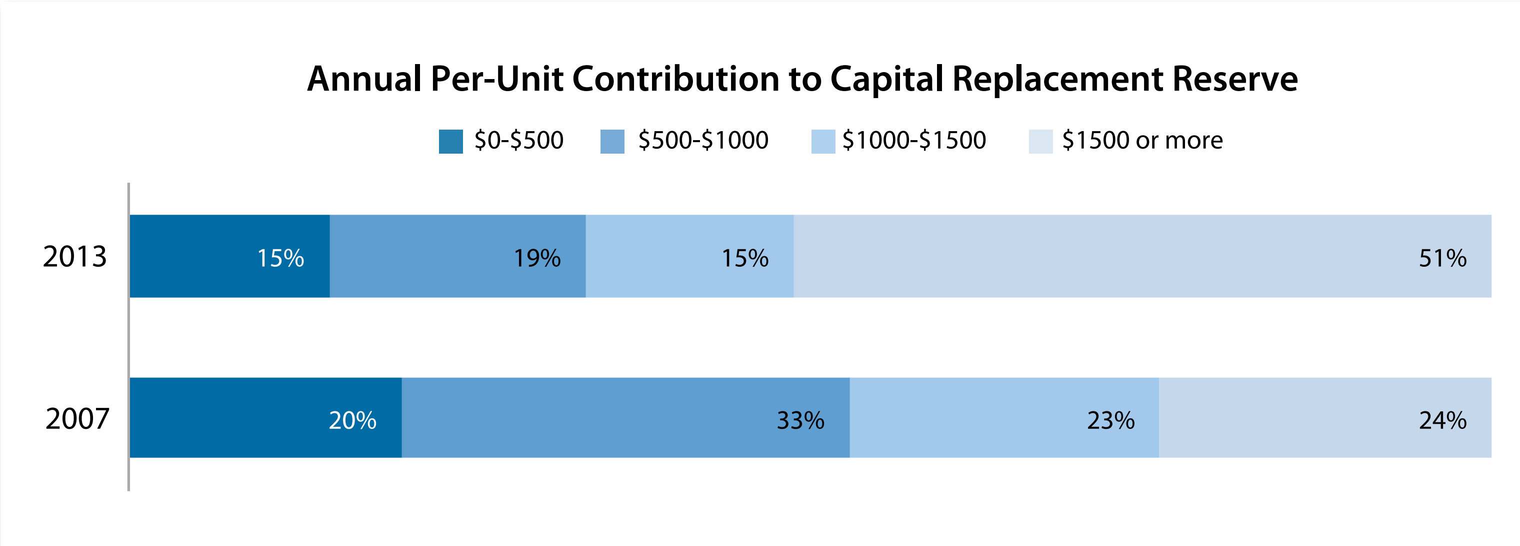
- Owing to a change to the AIR part way through 2010, data on physical-plant spending from 2007 through 2010 is not entirely comparable with data from 2012 and 2013.
- The implications of the change are discussed in **Appendix A**.
- The broad trend identified above—increased spending by co-ops on their physical plant—is considered valid nonetheless.
- The value of capital repairs funded through the federal Social Housing Renovation and Retrofit Initiative is excluded from the analysis.

AGREEMENT OBJECTIVE:

Improved financial health, as evidenced by an increasing percentage of co-operatives with fully funded replacement reserves

- Most clients continue to heed our advice by contributing more to their capital-replacement reserves.
- Contributions to reserves, including supplementary contributions from operating surpluses, have risen sharply in constant dollars since 2007.

Fully Funded Reserves



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Fully Funded Reserves

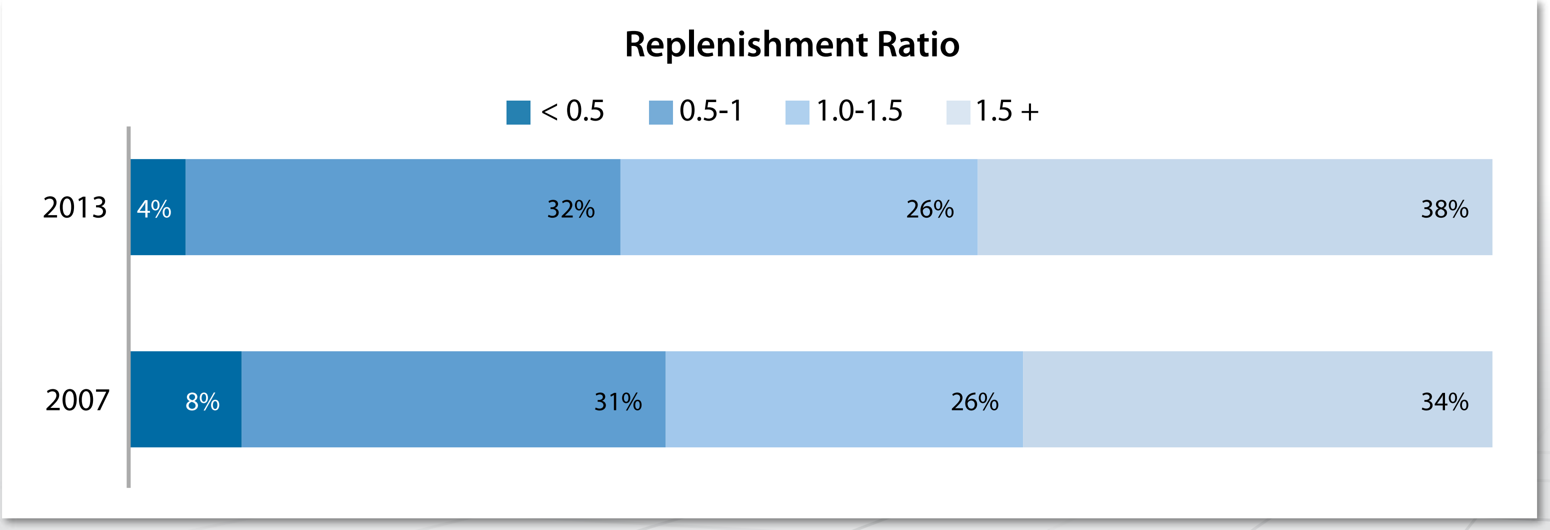
- 477 co-ops appear in both the 2007 and 2013 datasets.
- During this time, the median annual per-unit contribution rose 62% from $941 to $1,521 (constant dollars).
- 71% of co-operatives increased their contribution during that period.
- 43% of co-operatives increased their contribution by $500 per unit or more.
- Higher capital replacement-reserve contributions correlate strongly with capital-reserve planning.

Fully Funded Reserves

- The median contribution rate is much lower among clients without a capital replacement-reserve plan:
  - Co-ops with a plan set aside a median amount of $1,899 per unit in 2013.
  - At $1,177, the median contribution rate was 38% lower for co-ops without a plan (2012: 38%).
- The replenishment ratio expresses the relationship between the amount a co-op adds to its capital-replacement reserve over 2 years and the sum it withdraws.

Fully Funded Reserves

- A client's demonstrated will and capacity to replenish the reserve are at least as meaningful as the reserve balance at any point in time.
- A strong majority of clients in the 2013 dataset —64%—contributed more to their capital reserve in the previous 2 years than they withdrew (2012: 65%; 2007: 60%).



Fully Funded Reserves

The median replenishment ratio grew between 2007 and 2013.

Table 23: Capital Replacement Reserve Replenishment Ratio					
	2013	1 Year Ago 2012	3 Years Ago 2010	5 Years Ago 2008	Base Year 2007
Median for Dataset	1.24	1.21	1.09	1.11	1.11

Fully Funded Reserves

- In a fully funded reserve—the focus of this indicator—the entire fund liability is backed by cash and investments.
- As in 2012, 93% of Agency clients in the dataset had fully funded reserves in 2013 (2007: 91%).
- The median funding rate among clients whose reserves are not fully funded is now 81%, up from 65% in 2012 (2007: 63%).
- As in 2012, 95% of co-ops without workouts reported fully funded reserves in 2013.

Fully Funded Reserves

- The median funding rate was 84% for the 5% without fully funded reserves, up strongly from 66% in 2007 (2012: 85%).
- The proportion of co-ops with workouts holding fully funded reserves has been stable since 2007 (2013: 88%; 2007: 88%).
- The median funding rate for co-ops with workouts whose reserves are not fully funded has risen strongly (2013: 54%; 2007: 40%).
- Note that CMHC's practices mean that a co-operative with a workout cannot normally address this under-funding while the workout is in place.

Fully Funded Reserves

Table 24: Capital Replacement Reserve Funding Rates

	% of Co-ops with Fully Funded Capital Reserve		Median Funding Rate for Reserves not Fully Funded	
	2013	2007	2013	2007
All Co-ops in Dataset	93%	91%	81%	63%
Co-ops without Workouts	95%	92%	84%	66%
Co-ops with Workouts	88%	88%	54%	40%

CLIENT SATISFACTION

- In our last portfolio review we reported the results of our 2011 Client Satisfaction Survey.
- This survey of all Agency clients normally takes place once every 3 years. The next survey has been delayed by a year owing to the timing of CMHC's evaluation of the Agency and our concern that our clients not be surveyed too often.
- The survey is conducted by a third party to protect the anonymity of responses.

Client Satisfaction

- Client satisfaction has greatly improved since the base year of 2005, the last full year of CMHC's direct management of the portfolio.
- In 2011, steady or slightly improved client satisfaction was reported, as compared with 2008.

Table 25: Percentage of Satisfied Clients

	Timeliness of Service	Access to the Program Administrator	Overall Quality of Service
2011	84%	86%	84%
2008	84%	85%	83%
2005	55%	56%	48%

LOOKING AHEAD TO 2014

- The 2013 annual review of the portfolio finds it in good health, with measurable improvement since 2007 against most indicators.
- However, as small non-profit enterprises, housing co-operatives are always at some risk, owing to their internal dynamics and the many environmental factors beyond their control.
- In addition, our clients are approaching the end of their operating agreements, raising concerns about whether they can continue as mixed-income communities, following the loss of their rent-geared-to-income assistance.

Looking Ahead to 2014

The Agency will continue to

- work for improvement in our clients' performance
- prepare our clients for the future
  - by encouraging them to
    - increase their revenues and contributions to capital-replacement reserves
    - adopt a long-term capital plan based on a current building condition assessment
    - if they have a workout, repay as much of their debt as they can before their operating agreement ends

Looking Ahead to 2014

- by supporting the efforts of co-operative housing federations to help our clients arrange for new financing, where a debt will remain at the end of the agreement or major repairs will be needed while it is still in force

- promote the choices and culture that will ensure the preservation of the co-operative housing movement's heritage now and in the future.

APPENDIX A: TECHNICAL DATA

The 2013 Dataset

- The data in this report were drawn from Annual Information Returns (AIRs) received and validated by the Agency by January 15, 2014 for fiscal years ending between August 2012 and July 2013.
- The data were organized by co-op and by “study year,” i.e., a single fiscal year ending within the period above.
- Static values, such as province, were attached to co-ops and set out in a co-op table.

The 2013 Dataset

- Attributes that can vary, such as management type, were assigned on a study-year basis.
- As of 31 December 2013, the Agency had 554 co-op clients (33, 556 units).
- At January 15, 2014 we had received and validated AIRs from 531 clients (32,820 units). These co-ops comprise the 2013 dataset.

Earlier Datasets

- Datasets for previous study years have been adjusted to include the AIRs for all co-operatives that were active Agency clients during the period in question.
- This increases the numbers available for trend analyses.
- Composition of datasets for prior-year comparisons:
  - 2012: 547 co-ops with 33,323 units
  - 2010: 529 co-ops with 32,423 units
  - 2008: 516 co-ops with 31,213 units
  - 2007: 505 co-ops with 30,759 units

Earlier Datasets

- The 2013 and 2007 datasets have 477 co-ops in common.
- 54 co-ops are found only in the 2012 dataset.
- 28 are found only in the 2007 dataset.

Deep-Subsidy Programs

- Composite risk ratings for co-operatives operating under the deep-subsidy programs (Urban Native and PEI Non-profit programs) are not relevant for purposes of this report, owing to the economic model of those programs.
- They are therefore excluded from the datasets for analyses that involve composite risk ratings.

Constant Dollar Amounts

- Dollar amounts from previous years have been indexed to their 2013 values (constant dollars) using the rate of change of the Consumer Price Index (CPI) for Canada (all items, not seasonally adjusted, as published by Statistics Canada).
- For values relating to specific clients, we calculated the rate of change by comparing the CPI for the month in which the co-operative's fiscal year ended and the CPI for the same month in the following years.
- Calculations for portfolio-wide numbers, such as medians, were based on the indexed amount for each co-operative.

Measurement of Investment in the Physical Plant

- A change made to the AIR part way through 2010 makes data on physical-plant spending from 2007 through 2010 not fully comparable to data for subsequent years.
- Prior to the change, information on additions made to a client's capital assets could not be isolated. As a result, capital repairs that were capitalized and amortized to operations over time are excluded from the data presented for physical-plant investments for periods before 2010.
- To understand the effect that including the capitalized repairs reported after 2009 had on our analysis, we looked at the clients reporting such repairs and the amount they spent.

Measurement of Investment in the Physical Plant

Table 26: Additions to Capital Assets	2013	2012	2011
Clients Reporting Additions to Capital Assets: Number and % of Dataset	41/531 (8%)	39/547 (7%)	40/536 (7%)
Largest Per-Unit Addition	$27,126	$42,916	$25,160
Total Per-Unit Physical-Plant Spending for the Dataset	$3,298	$3,194	$3,025
Total Additions to Capital Assets/Total Units in Dataset	$340	$356	$216
Total Additions to Capital Assets as % of Total Physical-Plant Spending	10%	11%	7%
Median Per-unit Spending with Additions to Capital Assets Included	$2,467	$2,439	$2,388
Median Per-unit Spending Excluding Additions to Capital Assets	$2,422	$2,360	$2,280

Measurement of Investment in the Physical Plant

- While only a small minority of clients reported additions to their capital assets (about 8% each year), the value of those additions had a material effect on median physical-plant spending rates in the portfolio.
- Next we examined the 2013 distribution of clients in the dataset by per-unit spending rates, with and without additions to capital assets, and compared these with 2007 spending rates. There was very little variation in the distribution, looked at each way.

Measurement of Investment in the Physical Plant

Table 27: Distribution of Clients in the Dataset by Annual Per-Unit Spending on Maintenance and Capital Repairs and Replacements				
	$0-$2,000	$2,000-$4,000	$4,000-$6,000	$6,000 or more
2013 with Additions to Capital Assets	35%	47%	12%	7%
2013 without Additions to Capital Assets	36%	48%	11%	5%
2007	47%	43%	8%	2%

Owing to rounding, percentages may not total 100%.

- With additions to capital assets excluded, the proportion of clients in the database spending more than $4,000 per unit a year, in constant dollars, on maintenance and capital repairs grew from 10% to 16% between 2007 and 2013.
- The proportion spending less than $2,000 fell from 47% to 36%.

Measurement of Investment in the Physical Plant

- As the value of additions to capital assets in 2007 is unknown, it cannot be said conclusively that total per-unit spending in the portfolio was higher in 2013. We note, however, that physical-plant spending rose between 2007 and 2008, with additions to capital assets excluded for both years and between 2010 and 2013, with additions to capital assets included for all years.
- It seems reasonable to surmise that, if information on additions to capital assets in 2007 were available, total spending would be seen to have grown in constant dollars from 2007 to 2013.

APPENDIX B: NON-COMPLIANCE

Compliance failures are classified according to the following criteria:

Breach—a compliance failure that has an impact on the viability of the co-operative in the short term or that could result in public funds committed for the program being misused or perceived to have been misused.

Material Compliance Variance—a compliance failure that does not threaten the viability of the co-operative in the short term but that, if left unresolved, could have an impact over the longer term; the compliance failure will not result in public funds committed for the program being misused or perceived as being misused.

Minor Compliance Variance—a variance from the operating agreement or program guidelines that neither has an impact on the co-operative's short- or long-term viability nor results in public funds committed for the program being misused or seen to have been misused.

APPENDIX C: COMPOSITE RISK RATINGS

Definitions

Low

A strong, well-managed housing co-operative. The combination of its excellent physical condition, accumulated earnings and reserves, position in the marketplace and current capacity to contribute to its replacement reserve make it resilient in adverse market and economic conditions. Provided it continues to be well managed, the co-operative should be able to fund needed repairs and replacements and meet its debt obligations for the foreseeable future, without external support.

Definitions

Moderate

A sound, generally well-managed housing co-operative. It is in good or better physical condition, has access to adequate cash resources and is able to make a contribution from earnings to its replacement reserve, after covering its debt service and all normal operating expenses. No indicators of high risk are present. The co-operative should be able to remain in sound financial and physical condition, provided it continues to be well managed and economic or market conditions do not deteriorate significantly. It does not require external support or intervention.

Definitions

Above Average

The co-operative has issues that warn of emerging or potential financial difficulties. One or more of the following conditions is present: the co-operative is in fair, but not poor, physical condition; its earnings are sufficient to cover current expenses, but do not allow for an adequate contribution to the replacement reserve; its combined accumulated earnings and replacement reserve are low and access to other cash resources, such as member shares or deposits, is limited; or vacancy losses or housing charge arrears are significantly above the median level for its peers. No indicators of high risk are present, but the co-operative may be challenged in funding needed capital repairs or meeting its obligations in the future, especially if the market is weak or weakens. It will require very effective management and some ongoing monitoring and support.

Definitions

High

The co-operative is in financial difficulty or is poorly managed. One or more of the following conditions is present: the co-operative's earnings are insufficient to cover its debt service and current expenses, before a contribution to the replacement reserve; it has an accumulated operating deficit, a low or non-existent replacement reserve and limited access to other cash resources, such as member shares or deposits; vacancy losses or housing charge arrears are unusually high; the co-operative has urgent or major repair requirements that it is not able to fund; it is behind with its mortgage payment or property taxes; it has suffered a major loss of assets through fire or malfeasance against which it was not adequately insured; or it is suffering from a failure of governance. Without intervention and continuing support, and possibly a financial workout, the co-operative is at risk of failure.

Changes to the Risk-Assessment Model

In this review, ratings for earlier years have been adjusted as necessary to reflect the following changes to the risk-rating system made in 2010. We

- increased the combinations of leading-indicator scores that return a composite rating of Low
- raised the thresholds used in establishing Net-Income indicator ratings
- modified the Net-Income indicator formula to use the higher of the co-operative's reported insured replacement value or the regional median replacement value, adjusted for the size of the co-op.

APPENDIX D: MEDIAN PERFORMANCE DATA

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2013	2007	2013	2007
Full Dataset	0.4%	0.4%	$36	$36
Program				
S27/S61	0.2%	0.2%	$20	$14
S95	0.3%	0.3%	$33	$31
FCHP (ILM)	0.5%	0.7%	$60	$75
Multi-program	1.4%	1.0%	$169	$134

Note: Dollar amounts for 2007 have been indexed as constant dollars to 2013. The variation in a median between 2007 and 2013 may owe more to a change in the dataset than to the evolution of the individual co-operatives within the portfolio, especially for the smaller subsets.

Vacancies

	Annual Vacancy Loss as % of Gross Housing Charge Potential		Annual Per-Unit Vacancy Loss	
	2013	2007	2013	2007
Full Dataset	0.4%	0.4%	$36	$36
Province				
British Columbia	0.1%	0.2%	$12	$16
Alberta	0.5%	0.3%	$60	$30
Ontario	0.7%	0.7%	$68	$73
PEI	3.7%	0.2%	$294	$15
Management Model				
Management Company	0.4%	0.5%	$49	$50
Paid Staff	0.4%	0.4%	$38	$37
Paid Bookkeeper Only	0.1%	0.3%	$11	$22
Volunteers Only	0.0%	0.0%	$0	$0

Housing-Charges Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2013	2007	2013	2007
Full Dataset	0.6%	0.9%	$699	$642
Program				
S27/S61	0.6%	0.8%	$708	$552
S95	0.5%	0.7%	$676	$623
FCHP (ILM)	0.8%	1.3%	$700	$650
Multi-program	1.4%	1.4%	$1,127	$1,095
Urban Native/PEI NP	3.7%	8.4%	$1,175	$1,087
Province				
British Columbia	0.3%	0.4%	$475	$425
Alberta	0.9%	0.7%	$559	$393
Ontario	1.0%	1.4%	$905	$861
PEI	2.5%	1.2%	$792	$715

Housing-Charges Arrears and Administration Costs

	Ratio of Combined Arrears and Bad Debts to Occupants' Share of Annual Housing Charges		Annual Per-Unit Administration Spending	
	2013	2007	2013	2007
Full Dataset	0.6%	0.9%	$699	$642
Management Model				
Management Company	0.7%	1.0%	$666	$576
Paid Staff	0.7%	1.0%	$883	$907
Paid Bookkeeper Only	0.5%	0.5%	$271	$326
Volunteers Only	0.0%	0.5%	$152	$121

Physical Plant

	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements		Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2013	2007	2013	2007	2013	2007
Full Dataset	$2,466	$2,069	$3,370	$3,371	$1,521	$941
Program						
S27/S61	$2,989	$2,049	$3,410	$3,554	$1,600	$1,051
S95	$2,556	$2,146	$4,069	$3,791	$1,683	$1,195
FCHP (ILM)	$2,089	$1,923	$1,904	$2,279	$897	$546
Multi-program	$2,490	$2,666	$2,025	$3,265	$1,012	$979
Urban Native/PEI NP	$2,144	$3,182	$388	$2,866	$750	$501
Province						
British Columbia	$2,418	$1,928	$3,597	$3,471	$1,700	$1,054
Alberta	$2,283	$1,672	$3,663	$2,381	$1,397	$736
Ontario	$2,633	$2,281	$3,258	$3,580	$1,405	$944
PEI	$1,500	$1,927	$1,388	$960	$509	$455

Capital Assets

	Combined Per-Unit Annual Spending on Maintenance and Capital Repairs and Replacements		Per-Unit Capital Replacement Reserve Balance		Annual Per-Unit Capital Replacement Reserve Contribution	
	2013	2007	2013	2007	2013	2007
Full Dataset	$2,466	$2,069	$3,370	$3,371	$1,521	$941
Management Model						
Management Company	$2,545	$2,083	$2,755	$3,060	$1,503	$891
Paid Staff	$2,558	$2,307	$3,975	$3,565	$1,556	$916
Paid Bookkeeper Only	$2,435	$1,851	$4,077	$3,147	$1,738	$1,074
Volunteers Only	$1,802	$1,625	$3,971	$3,885	$1,085	$927