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INDEPENDENT AUDITORS' REPORT

Financial Statements of

LONDON & MIDDLESEX HOUSING CORPORATION

Year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of London & Middlesex Housing Corporation

We have audited the accompanying financial statements of London & Middlesex Housing Corporation, which comprise the statement of financial position as at December 31, 2015, the statements of operations, change in net financial debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of London & Middlesex Housing Corporation as at December 31, 2015, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

April 28, 2016

London, Canada

LONDON & MIDDLESEX HOUSING CORPORATION

Statement of Financial Position

As at December 31, 2015, with comparative information for 2014

	2015	2014
Financial Assets:		
Cash	\$ 1,738,444	\$ 1,563,093
Accounts receivable (note 3)	674,369	700,191
Due from The City of London	598,810	1,075,186
	<u>3,011,623</u>	<u>3,338,470</u>
Financial Liabilities:		
Accounts payable and accrued liabilities	2,923,445	2,899,977
Tenants advances	475,239	428,517
Unearned miscellaneous revenue	70,300	71,171
	<u>3,468,984</u>	<u>3,399,665</u>
Net debt	(457,361)	(61,195)
Non-financial Assets:		
Tangible capital assets (note 7)	50,666,053	49,889,897
Prepaid expenses	457,361	61,195
	<u>51,123,414</u>	<u>49,951,092</u>
Commitments (note 5)		
Accumulated surplus (note 8)	\$ 50,666,053	\$ 49,889,897

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

LONDON & MIDDLESEX HOUSING CORPORATION

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	Budget	2015	2014
Revenue:			
Rental revenue	\$ 10,176,000	\$ 10,637,628	\$ 10,365,263
Rental subsidy	8,569,172	8,569,008	7,947,248
The City of London funding adjustment	-	369,450	124,507
Rent supplement subsidy surplus	-	-	2,012
Capital funding	-	2,316,095	3,275,191
Energy savings project rebates	-	135,727	499,557
Other	272,837	272,752	264,218
Total revenue	19,018,009	22,300,660	22,477,996
Expenses:			
Salaries, wages and employee benefits	4,430,900	4,624,950	4,247,328
Maintenance, materials and services:			
Building, general	2,676,086	3,032,310	2,892,618
Grounds	802,100	857,364	847,265
Painting	301,400	329,878	263,311
Other	167,100	125,034	112,424
	3,946,686	4,344,586	4,115,618
Utilities:			
Electricity	1,866,234	2,140,498	2,012,761
Water	938,646	1,009,960	932,902
Natural gas	1,064,129	921,512	1,021,161
	3,869,009	4,071,970	3,966,824
Amortization	-	1,595,144	1,457,231
Property:			
Insurance	521,761	561,309	494,018
Municipal taxes	5,134,938	5,023,794	4,695,884
Mortgage payments	48,400	47,127	48,405
	5,705,099	5,632,230	5,238,307
Administration	1,066,315	1,255,624	1,188,590
Total expenses	19,018,009	21,524,504	20,213,898
Annual surplus	-	776,156	2,264,098
Accumulated surplus, beginning of year	49,889,897	49,889,897	47,625,799
Accumulated surplus, end of year	\$ 49,889,897	\$ 50,666,053	\$ 49,889,897

See accompanying notes to financial statements.

LONDON & MIDDLESEX HOUSING CORPORATION

Statement of Change in Net Financial Debt

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Annual surplus	\$ 776,156	\$ 2,264,098
Acquisition of tangible capital assets	(2,371,300)	(3,721,745)
Loss on disposal of tangible capital assets	-	416
Amortization of tangible capital assets	1,595,144	1,457,231
	(776,156)	(2,264,098)
Acquisition of prepaid expenses	(6,504,046)	(6,691,505)
Use of prepaid expenses	6,107,880	6,987,016
Change in net financial debt	(396,166)	295,511
Net debt, beginning of year	(61,195)	(356,706)
Net debt, end of year	\$ (457,361)	\$ (61,195)

See accompanying notes to financial statements.

LONDON & MIDDLESEX HOUSING CORPORATION

Statement of Cash Flows

December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 776,156	\$ 2,264,098
Items not involving cash:		
Amortization	1,595,144	1,457,231
Loss on disposal of tangible capital assets	-	416
Changes in non-cash items:		
Accounts receivable	25,822	35,249
Prepaid expenses	(396,166)	295,511
Due from The City of London	476,376	(1,075,186)
Accounts payable and accrued liabilities	23,468	119,770
Tenant advances	46,722	62,102
Unearned miscellaneous revenue	(871)	625
Deferred revenue	-	(403,970)
	2,546,651	2,755,846
Capital activities:		
Cash used to acquire tangible capital assets	(2,371,300)	(3,721,745)
Increase (decrease) in cash	175,351	(965,899)
Cash, beginning of year	1,563,093	2,528,992
Cash, end of year	\$ 1,738,444	\$ 1,563,093

See accompanying notes to financial statements.

LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements

December 31, 2015

1. Incorporation:

The London & Middlesex Housing Corporation (the "Corporation") operates housing accommodation primarily for persons of low and moderate income. The Corporation operates 3,282 units throughout The City of London and the County of Middlesex and is 100% owned by The City of London.

2. Significant accounting policies:

The financial statements of the Corporation are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Corporation are as follows:

(a) Tangible capital assets:

- (i) Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life-years
Site improvements	20-35
Buildings and improvements	15-40
Technology and communications	3
Vehicles	10
Furniture and fixtures	10
Machinery and equipment	25
Appliances	10

One half-year's amortization is charged in the year of acquisition.

(ii) Contributions of capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt.

LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2015

2. Significant accounting policies (continued):

(b) Revenue recognition:

Rental revenue is recognized at the time the service is provided. Other revenues are recognized when the services are earned.

Government transfer payments are recognized in the financial statements in the year in which the payment is authorized and the events giving rise to the transfer occur, performance criteria are met, and a reasonable estimate of the amount can be made. Funding that is stipulated to be used for specific purposes is only recognized as revenue in the fiscal year that the related expenses are incurred or services performed. If funding is received for which the related expenses have not yet been incurred or services performed, these amounts are recorded as a liability at year end.

(c) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of tangible capital assets and valuation allowances for receivables. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(d) Budget data:

Budget figures have been provided for comparison purposes. Given differences between the budgeting model and generally accepted accounting principles established by PSAB, certain budgeted amounts have been reclassified to reflect the presentation adopted under PSAB.

(e) Change in Accounting Policy:

The Corporation adopted Public Sector Accounting Board Standard PS 3260, *Liability for Contaminated Sites* effective as of January 1, 2015. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. This Standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The Corporation adopted this standard on a retroactive basis and there were no adjustments as a result of the adoption of this standard.

LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2015

3. Accounts receivable:

	2015	2014
Rent	\$ 266,329	\$ 195,355
Harmonized sales tax	247,928	313,354
Sundry	160,112	191,482
	<u>\$ 674,369</u>	<u>\$ 700,191</u>

4. Income producing properties:

The income producing properties held by London & Middlesex Housing Authority and passed through to the Corporation were originally financed by the Province of Ontario through general obligation provincial debentures. At the time of the transfer of ownership, the Province did not transfer the responsibility for repayment of these debentures. Accordingly, the value of the provincial debentures associated with them have not been recorded on the Corporation's financial statements.

5. Commitments:

(a) Debt service payment:

The Corporation is responsible for the debt service payments on one of its properties located on Bella Street in Strathroy, Ontario. These payments of both principal and interest are made directly to the mortgagee and are expensed when incurred. A total of \$47,127 was expensed and paid in 2015 (2014 - \$48,405). The Ontario government is considered to be the holder of this debt, thus no provision has been made in the Corporation's financial statements for the mortgage.

(b) Contractual obligations:

The Corporation is committed to the following minimum annual operating lease payments for premises and equipment as follows:

2016	\$ 261,134
2017	271,541
2018	271,541
2019	269,618
2020	259,466
Thereafter	104,707

6. Pension agreement:

The Corporation makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The 2015 contribution rates are 9.0% for employee earnings below the year's maximum pensionable earnings and 14.6% thereafter. Employee contributions match these rates.

Contributions to OMERS by the Corporation are recognized as an expense in the period they are incurred. A total of \$310,625 was incurred as pension expense in 2015 (2014 - \$301,148).

LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2015

7. Tangible capital assets:

Cost	Balance at December 31, 2014	2015 Additions	2015 Disposals	Balance at December 31, 2015
Land	\$ 24,605,751	\$ -	\$ -	\$ 24,605,751
Site improvements	3,277,316	19,001	-	3,296,317
Buildings and improvements	79,116,222	1,941,856	-	81,058,078
Technology and communications	694,331	93,050	(11,141)	776,240
Vehicles	48,297	-	-	48,297
Furniture and fixtures	263,979	-	(367)	263,612
Machinery and equipment	2,750,964	251,382	-	3,002,346
Appliances	1,625,148	66,011	-	1,691,159
Total	\$ 112,382,008	\$ 2,371,300	\$ (11,508)	\$ 114,741,800

Accumulated amortization	Balance at December 31, 2014	2015 Disposals	2015 Amortization	Balance at December 31, 2015
Land	\$ -	\$ -	\$ -	\$ -
Site improvements	1,518,935	-	69,431	1,588,366
Buildings and improvements	57,793,412	-	1,144,841	58,938,253
Technology and communications	561,811	(11,141)	108,604	659,274
Vehicles	12,075	-	4,830	16,905
Furniture and fixtures	143,278	(367)	19,840	162,751
Machinery and equipment	1,189,435	-	84,035	1,273,470
Appliances	1,273,165	-	163,563	1,436,728
Total	\$ 62,492,111	\$ (11,508)	\$ 1,595,144	\$ 64,075,747

LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2015

7. Tangible capital assets (continued):

	Net book value at December 31, 2014	Net book value at December 31, 2015
Land	\$ 24,605,751	\$ 24,605,751
Site improvements	1,758,381	1,707,951
Buildings and improvements	21,322,810	22,119,825
Technology and communications	132,520	116,966
Vehicles	36,222	31,392
Furniture and fixtures	120,701	100,861
Machinery and equipment	1,561,529	1,728,876
Appliances	351,983	254,431
	<u>\$ 49,889,897</u>	<u>\$ 50,666,053</u>

8. Accumulated surplus:

Accumulated surplus consists of surplus funds as follows:

	2015	2014
Surplus:		
Invested in tangible capital assets	\$ 50,666,053	\$ 49,899,897