

<b>TO:</b>	<b>CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON JUNE 25, 2018</b>
<b>FROM:</b>	<b>MARTIN HAYWARD CITY MANAGER</b>
<b>SUBJECT:</b>	<b>LONDON &amp; MIDDLESEX HOUSING CORPORATION 2017 ANNUAL MEETING OF THE SHAREHOLDER ANNUAL RESOLUTIONS</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the City Manager, the attached proposed by-law (Appendix “A”) BE INTRODUCED at the Municipal Council meeting to be held June 26, 2018 to:

- a) ratify and confirm the Annual Resolutions of the Shareholder of the London & Middlesex Housing Corporation attached as Schedule “A” to the by-law; and
- b) authorize the Mayor and the City Clerk to execute the Annual Resolutions of the Shareholder of the London & Middlesex Housing Corporation attached as Schedule “A” to the by-law.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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May 16, 2016 – Strategic Priorities and Policy Committee – Agenda Item #4  
 July 25, 2016 – Strategic Priorities and Policy Committee – Agenda Item#8  
 May 15, 2017 – Strategic Priorities and Policy Committee – Agenda Item #7  
 March 26, 2018 – Strategic Priorities and Policy Committee – Agenda Item #4.2

<b>BACKGROUND</b>
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At its meeting held March 27, 2018, Municipal Council resolved:

“That the following actions be taken with respect to the 2017 Annual General Meeting of the Shareholder for the London & Middlesex Housing Corporation:

- a) the 2017 Annual General Meeting of the Shareholder for the London & Middlesex Housing Corporation BE HELD at a meeting of the Strategic Priorities and Policy Committee on June 25, 2018, for the purpose of receiving the report from the Board of Directors of the London & Middlesex Housing Corporation in accordance with the Shareholder Declaration and the *Business Corporations Act, R.S.O. 1990, c. B.16*; and
- b) the City Clerk BE DIRECTED to provide notice of the 2017 Annual Meeting to the Board of Directors for the London & Middlesex Housing Corporation and to invite the Chair of the Board and the Executive Director of the London & Middlesex Housing Corporation to attend at the Annual Meeting and present the report of the Board in accordance with the Shareholder Declaration;

it being noted that the Strategic Priorities and Policy Committee received a communication dated March 15, 2018, from M. Buzzelli, Chair, Board of Directors, London & Middlesex Housing Corporation, with respect to this matter.”

**2017 Annual General Meeting**

The London & Middlesex Housing Corporation is a corporation with share capital incorporated under the *Business Corporations Act*, R.S.O. 1990 c. B.16. The London & Middlesex Housing Corporation is managed by a Board of Directors appointed by The Corporation of the City of London as the sole shareholder.

The attached (Schedule "A") Annual Resolutions of the Shareholder of the London & Middlesex Housing Corporation addresses the following matters that are required to be dealt with at an Annual Meeting as required by the Shareholder's Declaration and the *Business Corporations Act*.

- a) receipt of the 2017 audited financial statements;
- b) appoint an Auditor; and,
- c) election of the directors.

We understand that the London & Middlesex Housing Corporation is recommending that Marci Allen-Easton, Sean Quigley and Mark Rosehart be appointed for an additional term as Third Class Directors.

<b>PREPARED BY:</b>	<b>RECOMMENDED BY:</b>
<b>CATHY SAUNDERS CITY CLERK</b>	<b>MARTIN HAYWARD CITY MANAGER</b>

## APPENDIX "A"

Bill No.  
2018

By-law No. A.-

A by-law to ratify and confirm the Annual Resolutions of the Shareholder of London & Middlesex Housing Corporation

WHEREAS London & Middlesex Housing Corporation is incorporated under the *Business Corporations Act* R.S.O. 1990, c.B.16 (the "BCA");

AND WHEREAS subsection 104(1)(b) of the BCA provides that a resolution in writing dealing with all matters required by the BCA to be dealt with at a meeting of shareholders, and signed by all the shareholders or their attorney authorized in writing entitled to vote at the meeting, satisfies all the requirements of the BCA relating to that meeting of shareholders;

AND WHEREAS The Corporation of the City of London is the sole shareholder of London & Middlesex Housing Corporation;

AND WHEREAS Subsection 9 of the *Municipal Act, 2001* provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS Subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The Annual Resolutions of the Shareholder of London & Middlesex Housing Corporation for the fiscal year ended December 31, 2017, attached as Schedule "A" are ratified and confirmed.
2. The Mayor and the City Clerk are authorized to execute the Annual Resolutions of the Shareholder ratified and confirmed under section 1 of this by-law.
3. This by-law comes into force and effect on the day it is passed.

PASSED in Open Council on June 26th, 2018.

Matt Brown  
Mayor

Catharine Saunders  
City Clerk

First Reading – June 26, 2018  
Second Reading – June 26, 2018  
Third Reading – June 26, 2018

**SCHEDULE "A"**

**LONDON & MIDDLESEX HOUSING CORPORATION  
(the "Corporation")**

**WHEREAS** subsection 104(1)(b) of the *Business Corporations Act* (Ontario) (the "Act") provides that a resolution in writing dealing with all matters required by the Act to be dealt with at a meeting of shareholders, and signed by all the shareholders or their attorney authorized in writing entitled to vote at the meeting, satisfies all the requirements of the Act relating to that meeting of shareholders;

The following resolutions, signed by the sole shareholder of the Corporation entitled to vote thereon, are hereby passed pursuant to the provisions of the Act:

**FINANCIAL STATEMENTS**

It is hereby acknowledged that the balance sheet of the Corporation as at December 31, 2017, and the other audited financial statements, together with Auditors' Report, of the Corporation for the financial year ended on such date have been received by the undersigned shareholder of the Corporation.

**ELECTION OF DIRECTORS**

**WHEREAS** pursuant to the Declaration of the Sole Shareholder, the board of directors of the Corporation shall consist of nine directors, seven of which shall be composed of various classes of directors, each serving for a three-year term, the eighth and ninth members of the fourth class shall serve as the representative of the municipal council of The Corporation of the City of London and The Corporation of the County of Middlesex;

**AND WHEREAS** the terms of the directors that are members of the third class expire at the annual meeting of shareholders held in 2018 pursuant to paragraph 6.2 of the Declaration of the Sole Shareholder;

**NOW THEREFORE BE IT RESOLVED THAT:**

1. Each of the following persons, being directors that are members of the first class pursuant to paragraph 6.2 of the Declaration of the Sole Shareholder, is hereby **elected** as a director of the Corporation to hold office for a term with the expiry as set out below, provided that when a successor is not duly elected at the close of the annual meeting described below, such director shall hold office until his or her successor is elected:

<b><u>Class</u></b>	<b><u>Name of Director</u></b>	<b><u>Term</u></b>
First	Deborah Peckham	the close of the annual meeting of shareholders to be held in 2020 for the financial year ending December 31, 2019
First	Larry Ducharme	the close of the annual meeting of shareholders to be held in 2020 for the financial year ending December 31, 2019

**CONFIRMATION OF CONTINUING TERMS**

2. Each of the following persons, being directors that are members of the second, third and fourth class, as provided for below, pursuant to paragraph 6.2 of the Declaration of the Sole Shareholder, is hereby **confirmed** as having a term continuing until the expiry as set out below, provided that when a successor is not duly elected at the close of the annual meeting described below, such director shall hold office until his or her successor is elected:

<b><u>Class</u></b>	<b><u>Name of Director</u></b>	<b><u>Term</u></b>
Second	Anna-Maria Evans	the close of the annual meeting of shareholders to be held in 2019 for the financial year ending December 31, 2018
Second	Michael Buzzelli	the close of the annual meeting of shareholders to be held in 2019 for the financial year ending December 31, 2018
Third	Marci Allen-Easton	the close of the annual meeting of shareholders to be held in 2021 for the financial year ending December 31, 2020
Third	Sean Quigley	the close of the annual meeting of shareholders to be held in 2021 for the financial year ending December 31, 2020
Third	Mark Rosehart	the close of the annual meeting of shareholders to be held in 2021 for the financial year ending December 31, 2020
Fourth	Anna Hopkins	the term ending November 30, 2018
Fourth	Vance Blackmore	the term ending November 30, 2018

**APPOINTMENT OF AUDITORS**

3. KPMG LLP are hereby appointed auditors of the Corporation to hold office until the close of the next annual meeting of the shareholders or until a successor is appointed by the shareholder at such remuneration as may be fixed by the directors and the directors are hereby authorized to fix such remuneration.

**DATED** this \_\_\_\_ day of \_\_\_\_\_, 2018.

**The Corporation of the City of London**

By: \_\_\_\_\_  
Name: Matt Brown  
Title: Mayor

By: \_\_\_\_\_  
Name: Catharine Saunders  
Title: City Clerk

Financial Statements of

**LONDON & MIDDLESEX HOUSING  
CORPORATION**

Year ended December 31, 2017

# 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, 2017, 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, 2017, 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

DATE

London, Canada

# LONDON & MIDDLESEX HOUSING CORPORATION

## Statement of Financial Position

As at December 31, 2017, with comparative information for 2016

	2017	2016
<b>Financial Assets:</b>		
Cash	\$ 1,501,897	\$ 1,110,798
Accounts receivable (note 3)	1,280,317	826,683
Due from The Corporation of the City of London	1,279,156	849,428
	<u>4,061,370</u>	<u>2,786,909</u>
<b>Financial Liabilities:</b>		
Accounts payable and accrued liabilities	3,851,506	2,667,306
Tenants advances	623,337	508,927
Unearned miscellaneous revenue	57,975	62,918
	<u>4,532,818</u>	<u>3,239,151</u>
Net debt	(471,448)	(452,242)
<b>Non-financial Assets:</b>		
Tangible capital assets (note 7)	51,957,297	50,871,208
Prepaid expenses	471,448	452,242
	<u>52,428,745</u>	<u>51,323,450</u>
Commitments (note 5)		
Accumulated surplus (note 8)	\$ 51,957,297	\$ 50,871,208

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director



# LONDON & MIDDLESEX HOUSING CORPORATION

## Statement of Operations

Year ended December 31, 2017, with comparative information for 2016

	Budget	2017	2016
Revenue:			
Rental revenue	\$ 10,691,691	\$ 11,122,354	\$ 10,773,462
From The Corporation of the City of London:			
Rental subsidy	9,758,731	9,758,730	8,991,668
Funding adjustment	-	(4,506)	50,565
Capital funding	-	2,610,289	867,439
One time funding	-	-	115,000
Energy savings project rebates	-	74,100	790,097
Other	284,391	354,605	507,621
<b>Total revenue</b>	<b>20,734,813</b>	<b>23,915,572</b>	<b>22,095,852</b>
Expenses:			
Salaries, wages and employee benefits	4,574,078	4,790,722	4,465,301
Maintenance, materials and services:			
Building, general	3,061,350	3,506,268	2,941,295
Grounds	830,214	846,330	830,382
Painting	269,085	320,347	279,474
Other	190,434	152,118	124,767
	4,351,083	4,825,063	4,175,918
Utilities:			
Electricity	2,402,933	1,984,966	2,473,928
Water	1,049,085	1,116,774	1,070,922
Natural gas	1,124,614	929,885	780,453
	4,576,632	4,031,625	4,325,303
Amortization	-	1,529,531	1,516,718
Property:			
Insurance	652,194	630,535	605,526
Municipal taxes	5,331,347	5,289,982	5,137,198
Mortgage payments	45,938	46,871	46,871
	6,029,479	5,967,388	5,789,595
Administration	1,203,541	1,685,153	1,617,862
<b>Total expenses</b>	<b>20,734,813</b>	<b>22,829,482</b>	<b>21,890,697</b>
Annual surplus	-	1,086,089	205,155
Accumulated surplus, beginning of year	50,871,208	50,871,208	50,666,053
<b>Accumulated surplus, end of year</b>	<b>\$ 50,871,208</b>	<b>\$ 51,957,297</b>	<b>\$ 50,871,208</b>

See accompanying notes to financial statements.

# LONDON & MIDDLESEX HOUSING CORPORATION

## Statement of Change in Net Debt

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Annual surplus	\$ 1,086,089	\$ 205,155
Acquisition of tangible capital assets	(2,615,620)	(1,721,873)
Amortization of tangible capital assets	1,529,531	1,516,718
	(1,086,089)	(205,155)
Acquisition of prepaid expenses	(6,600,274)	(6,322,946)
Use of prepaid expenses	6,581,068	6,328,065
Change in net financial debt	(19,206)	5,119
Net debt, beginning of year	(452,242)	(457,361)
Net debt, end of year	\$ (471,448)	\$ (452,242)

See accompanying notes to financial statements.

# LONDON & MIDDLESEX HOUSING CORPORATION

## Statement of Cash Flows

December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 1,086,089	\$ 205,155
Item not involving cash:		
Amortization	1,529,531	1,516,718
Changes in non-cash items:		
Accounts receivable	(453,635)	(152,314)
Prepaid expenses	(19,206)	5,119
Due from The Corporation of the City of London	(429,727)	(250,618)
Accounts payable and accrued liabilities	1,184,200	(256,139)
Tenant advances	114,410	33,688
Unearned miscellaneous revenue	(4,943)	(7,382)
	3,006,719	1,094,227
Capital activities:		
Cash used to acquire tangible capital assets	(2,615,620)	(1,721,873)
Increase (decrease) in cash	391,099	(627,646)
Cash, beginning of year	1,110,798	1,738,444
Cash, end of year	\$ 1,501,897	\$ 1,110,798

See accompanying notes to financial statements.

# LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements

December 31, 2017

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## 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 Corporation of 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, 2017

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## 2. Significant accounting policies (continued):

(b) Revenue recognition:

Rental revenue is recognized at the time the service is provided. Other revenues are recognized when 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) Contaminated sites

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.

# LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2016

## 3. Accounts receivable:

	2017	2016
Rent	\$ 402,188	\$ 266,279
Harmonized sales tax	477,735	271,085
Sundry	400,394	289,319
	<u>\$ 1,280,317</u>	<u>\$ 826,683</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 \$46,871 was expensed and paid in 2017 (2016 - \$46,871). 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:

2018	\$	312,299
2019		310,376
2020		303,186
2021		124,158

## 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 2017 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 \$312,640 (2016 - \$304,883) was incurred as a pension expense.

# LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2017

## 7. Tangible capital assets:

Cost	Balance at December 31, 2016	2017 Additions	2017 Disposals	Balance at December 31, 2017
Land	\$ 24,605,751	\$ -	\$ -	\$ 24,605,751
Site improvements	3,296,317	200,098	-	3,496,415
Buildings and improvements	82,450,379	1,974,403	-	84,424,782
Technology and communications	633,799	45,202	(50,531)	628,470
Vehicles	48,297	-	-	48,297
Furniture and fixtures	209,656	35,045	(10,720)	233,981
Machinery and equipment	3,130,027	267,852	-	3,397,879
Appliances	1,780,269	93,020	-	1,873,289
<b>Total</b>	<b>\$ 116,154,495</b>	<b>\$ 2,615,620</b>	<b>\$ (61,251)</b>	<b>\$ 118,708,864</b>

Accumulated amortization	Balance at December 31, 2016	2017 Disposals	2017 Amortization	Balance at December 31, 2017
Land	\$ -	\$ -	\$ -	\$ -
Site improvements	1,658,110	-	73,078	1,731,188
Buildings and improvements	60,105,649	-	1,228,290	61,333,939
Technology and communications	538,500	(50,531)	60,884	548,853
Vehicles	21,735	-	4,830	26,565
Furniture and fixtures	68,697	(10,720)	22,771	80,748
Machinery and equipment	1,365,086	-	99,527	1,464,613
Appliances	1,525,510	-	40,151	1,565,661
<b>Total</b>	<b>\$ 65,283,287</b>	<b>\$ (61,251)</b>	<b>\$ 1,529,531</b>	<b>\$ 66,751,567</b>

# LONDON & MIDDLESEX HOUSING CORPORATION

Notes to Financial Statements (continued)

December 31, 2016

## 7. Tangible capital assets (continued):

	Net book value at December 31, 2016	Net book value at December 31, 2017
Land	\$ 24,605,751	\$ 24,605,751
Site improvements	1,638,207	1,765,227
Buildings and improvements	22,344,730	23,090,843
Technology and communications	95,299	79,617
Vehicles	26,562	21,732
Furniture and fixtures	140,959	153,233
Machinery and equipment	1,764,941	1,933,266
Appliances	254,759	307,628
	<u>\$ 50,871,208</u>	<u>\$ 51,957,297</u>

## 8. Accumulated surplus:

Accumulated surplus consists of surplus funds as follows:

	2017	2016
Surplus:		
Invested in tangible capital assets	\$ 51,957,297	\$ 50,871,208





# London & Middlesex Housing Corporation

**Audit Findings Report  
For the year ended December 31, 2017**

*KPMG LLP*

Licensed Public Accountants

May 22, 2018

[kpmg.ca/audit](http://kpmg.ca/audit)



The contacts at KPMG in connection with this report are:

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# Executive summary

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the financial statements of London and Middlesex Housing Corporation as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee on February 6, 2018.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

## Audit risks and results

We identified at the start of the audit a significant financial reporting risk relating to the presumed fraud risk over management override of controls. This risk has been addressed in our audit. We have no significant matters to report to the Audit Committee in respect of this risk.

We also discussed with you some other areas of audit focus. We have no significant matters to report to the Audit Committee in respect of them.

*See pages 5-7.*

## Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

We did not identify any differences that remain uncorrected.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary (continued)

## Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- completing our discussions with the Audit Committee;
- obtaining a signed copy of the management representation letter;
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

- Management identifies all accounting estimates and establishes processes for making accounting estimates.
- There are no indicators of management bias as a result of our audit over estimates.
- Disclosure of estimation uncertainty in the financial statements is included in Note 2(c), Use of estimates. This note provides information on areas in the financial statements that include estimates.
- Management evaluates these estimates on a regular basis to ensure they are appropriate.

## Independence

We are independent with respect to the Corporation (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan.

Significant financial reporting risks	Why	Our response and significant findings
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	<p>We performed the following procedures as noted in our audit planning report:</p> <ul style="list-style-type: none"> <li>• Testing of journal entries and other adjustments including performing tests over the opening and ending balance of journal entries, and journal entry completeness</li> <li>• Performed a retrospective review of estimates and evaluated business rationale of significant unusual transactions</li> </ul> <p>Audit findings: No significant issues were noted as a result of our procedures.</p>

# Audit risks and results (continued)

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

Significant findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Why	Our response and significant findings
Deferred revenue	This account has a significant impact on the recognition of revenue	<p>We performed the following procedures as noted in our audit planning report:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the activities over the initiation, authorization, processing, recording and reporting of revenue and deferred revenue.</li> <li>• Selected a sample of receipts and releases to revenue and vouched to supporting documentation.</li> </ul> <p>Audit findings:</p> <p>No significant issues were noted as a result of our procedures.</p>
Tangible capital assets	The dollar value of tangible capital assets makes this a significant financial reporting caption	<p>We performed the following procedures as noted in our audit planning report:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the activities over the initiation, authorization, processing, recording and reporting of tangible capital assets.</li> <li>• Vouched a selection of additions and disposals throughout the year to supporting documentation.</li> <li>• Performed a substantive analytical procedure over depreciation expense.</li> <li>• Obtained details of repairs and maintenance expenses recorded during the year. Vouched a selection of expenses to supporting documentation. For the items selected for testing, obtained an understanding of the nature of the expense to gain assurance that it was not capital in nature.</li> <li>• Obtained management's assessment of the impact of the Contaminated Sites standard (PS 3260) and reviewed the impact to the financial statements.</li> </ul> <p>Audit findings:</p> <p>No significant issues were noted as a result of our procedures.</p>
Software migration	During 2017 LMHC migrated to a new software platform. This transition presents a risk as data could be migrated inaccurately	<p>We performed the following procedures as noted in the audit planning report:</p> <ul style="list-style-type: none"> <li>• Reviewed process used by management to migrate data from the previous software and ensured appropriate controls were in place to ensure data was accurately transferred.</li> <li>• Performed a comparison between the F2017 opening balances input in the new system and the closing F2016 audited financial statement account balances.</li> <li>• Used computer assisted audit techniques to perform a 100% journal entry roll using the migrated opening balances and journal entry activity for the year and compared the expected ending balances to the audited trial balance.</li> </ul> <p>Audit findings:</p> <p>No significant issues were noted as a result of our procedures.</p>

# Audit risks and results (continued)

Other areas of focus	Why	Our response and significant findings
Cash	The dollar value of cash makes this a significant financial reporting caption	<p>We performed the following procedures as noted in our audit planning report:</p> <ul style="list-style-type: none"> <li>• Confirmation with third parties to verify the balances at year-end.</li> <li>• Review of bank reconciliations and verification of significant reconciling items.</li> <li>• Review of financial statement disclosure.</li> </ul> <p>Audit findings: No significant issues were noted as a result of our procedures.</p>
Accounts payable and accrued liabilities	The dollar value of accounts payable and accrued liabilities makes this a significant financial reporting caption	<p>We performed the following procedures as noted in our audit planning report:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the activities over the initiation, authorization, processing, recording and reporting of accounts payable and accrued liabilities.</li> <li>• Performed a search for unrecorded liabilities.</li> </ul> <p>Audit findings: No significant issues were noted as a result of our procedures.</p>

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Corporation's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

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The form, arrangement, and content of the financial statements is adequate.

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# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management that all identified differences be corrected.

## Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

## Significant deficiencies

Description	Potential effect
No significant deficiencies have been identified.	

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Management representation letter**

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**Appendix 3: Audit Quality and Risk Management**

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**Appendix 4: Background and professional standards**

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**Appendix 5: Forensic focus**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.

# Appendix 2: Management representation letter

KPMG LLP  
1400-140 Fullarton Street  
London, ON N6A 5P2

DATE

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of London & Middlesex Housing Corporation ("the Entity") as at and for the period ended December 31, 2017.

*General:*

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016 including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
  - c) providing you with additional information that you may request from us for the purpose of the engagement.
  - d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
  - e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or

error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.
- h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

*Internal control over financial reporting:*

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

*Fraud & non-compliance with laws and regulations:*

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

*Subsequent events:*

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

*Related parties:*

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

*Estimates:*

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

*Going concern:*

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

*Non-SEC registrants or non-reporting issuers:*

- 11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

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Andrea Topham, Director, Corporate Services

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Jody Cuyllle, Finance Manager



## ***Attachment I – Definitions***

### *Materiality*

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### *Fraud & error*

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### *Related parties*

In accordance with Canadian public sector accounting standards *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

# Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 4: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.