

Financial Statements of

**HOUSING DEVELOPMENT CORPORATION,
LONDON**

And Independent Auditors' Report thereon

Year ended December 31, 2019



KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4880
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Housing Development Corporation, London

Opinion

We have audited the financial statements of Housing Development Corporation, London (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

May 28, 2020

HOUSING DEVELOPMENT CORPORATION, LONDON

Statement of Financial Position

As at December 31, 2019, with comparative information for 2018

	2019	2018
Financial assets		
Due from the Corporation of the City of London (note 3)	\$ 6,773,746	\$ 7,877,704
Trade and other receivables	75,895	58,604
Loans receivable	214,205	-
Total financial assets	7,063,846	7,936,308
Financial liabilities		
Accounts payable and accrued liabilities	105,318	135,850
Deferred revenue	10,250	3,000
Total financial liabilities	115,568	138,850
Net financial assets	6,948,278	7,797,458
Non-financial assets		
Tangible capital assets (note 4)	439,368	451,544
Prepaid expenses	7,783	5,666
Total non-financial assets	447,151	457,210
Commitments (note 9)		
Subsequent event (note 10)		
Accumulated surplus (note 5)	\$ 7,395,429	\$ 8,254,668

The accompanying notes are an integral part of these financial statements.

HOUSING DEVELOPMENT CORPORATION, LONDON

Statement of Operations

Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
	(note 8)		
Revenues			
Transfer payments			
Municipal - the Corporation of the City of London (note 3)	\$ 2,797,605	\$ 2,788,931	\$ 2,987,331
Federal	-	31,389	13,010
Interest income	-	183,800	132,286
Total revenues	2,797,605	3,004,120	3,132,627
Expenses			
Salaries, wages and benefits	673,602	688,758	563,327
Materials and supplies	75,494	57,905	31,582
Contracted services	51,800	81,087	115,588
Office rental expense	37,000	33,726	22,318
External transfers	-	2,957,092	100,000
Amortization of tangible capital assets (note 4)	-	44,791	37,150
Total expenses	837,896	3,863,359	869,965
Annual surplus (deficit)	1,959,709	(859,239)	2,262,662
Accumulated surplus, beginning of year (note 5)	8,254,668	8,254,668	5,992,006
Accumulated surplus, end of year (note 5)	\$ 10,214,377	\$ 7,395,429	\$ 8,254,668

The accompanying notes are an integral part of these financial statements.

HOUSING DEVELOPMENT CORPORATION, LONDON

Statement of Changes in Net Financial Assets

Year ended December 31, 2019, with comparative information for 2018

	Budget	2019	2018
Annual surplus (deficit)	\$ 1,959,709	\$ (859,239)	\$ 2,262,662
Acquisition of tangible capital assets	-	(32,615)	(231,947)
Contributions of tangible capital assets	-	-	(255,401)
Amortization of tangible capital assets	-	44,791	37,150
	1,959,709	(847,063)	1,812,464
Change in prepaid expenses	-	(2,117)	58,309
Change in net financial assets	1,959,709	(849,180)	1,870,773
Net financial assets, beginning of year	7,797,458	7,797,458	5,926,685
Net financial assets, end of year	\$ 9,757,167	\$ 6,948,278	\$ 7,797,458

The accompanying notes are an integral part of these financial statements.

HOUSING DEVELOPMENT CORPORATION, LONDON

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by:		
Operating activities:		
Annual surplus (deficit)	\$ (859,239)	\$ 2,262,662
Items not involving cash:		
Amortization of tangible capital assets	44,791	37,150
Contributions of tangible capital assets	-	(255,401)
Changes in non-cash assets and liabilities:		
Due from the Corporation of the City of London	1,103,958	(1,951,175)
Prepaid expenses	(2,117)	58,309
Trade and other receivables	(17,291)	(30,709)
Loans receivable	(214,205)	-
Accounts payable and accrued liabilities	(30,532)	108,111
Deferred revenue	7,250	3,000
Net change in cash from operating activities	32,615	231,947
Capital activities:		
Purchase of tangible capital assets	(32,615)	(231,947)
Cash used in capital activities	(32,615)	(231,947)
Net change in cash flows and cash, end of year	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements

Year ended December 31, 2019

1. Nature of Reporting Entity

Housing Development Corporation, London (the "Corporation") is a municipal services corporation with share capital incorporated under the *Business Corporations Act*, R.S.O. 1990, c.B.16 on October 26, 2015.

The Corporation is a wholly owned subsidiary company of The Corporation of the City of London (the "City") and is managed by a Board of Directors appointed by the City, as the sole shareholder.

2. Significant Accounting Policies

The financial statements of the Corporation are prepared by management, in accordance with Canadian generally accepted accounting principles as defined in the Chartered Professional Accountants (CPA) of Canada Public Sector Handbook – Accounting.

Significant accounting policies are as follows:

(a) Basis of Accounting

Sources of financing and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(b) Tangible Capital Assets

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
Leasehold improvements	Lease term
Office equipment and furniture	5

Annual amortization is charged in the year of acquisition and in the year of disposal using the following rules:

- Leasehold improvements – prorated by month, based on in-service date
- Office equipment and furniture - half year rule.

Assets under construction are not amortized until the asset is available for productive use.

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant Accounting Policies (continued)

(c) Government Transfers

Government transfer payments from the City 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.

(d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 valuation allowances for receivables and useful lives assigned to tangible capital assets.

Actual results could differ from those estimates.

(e) Budget Figures

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

(f) Liability for Contaminated Sites

Under PS 3260, liability for 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.

(g) Related Party Disclosures

The Corporation adopted Public Sector Accounting Board Standard PS 2200 *Related Party Transactions* effective for fiscal periods beginning on or after April 1, 2017. The standard defines related party and provides disclosure requirements. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. The standard also requires disclosure of related party transactions that have occurred where no amounts have been recognized. The Corporation adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant Accounting Policies (continued)

(h) Inter-entity Transactions

The Corporation adopted Public Sector Accounting Board standard PS 3420 *Inter-entity Transactions* effective for fiscal periods beginning on or after April 1, 2017. The standards specifies how to account for transactions between public sector entities within the government reporting entity.

Transactions undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length are recorded at the exchange amount. Transfers of an asset or liability at nominal or no consideration is recorded by the provider at the carrying amount and the recipient has the choice of using either the carrying amount or fair value. Cost allocations are reported using the exchange amount and revenues and expenses are reported on a gross basis. Unallocated costs for the provision of goods or services may be recorded by the recipient at the carrying amount or fair value unless otherwise dictated by policy, accountability structure or budget practice.

All other transactions are measured at the carrying amount.

The Corporation adopted this standard on a prospective basis and there were no adjustments as a result of the adoption of this standard.

3. Related Party Transactions

The City maintains a separate general ledger on behalf of the Corporation. All funds are paid and received through the City's bank account and are held for use by the Corporation.

In accordance with the City of London Council's direction of September 2, 2014, the Corporation has been extended shared services support from the City. The City's support services include information technology, risk management, facility, finance, payroll, purchasing, legal and other administrative services to ensure operational efficiency. The Corporation has also entered into an agreement with the City under which the Corporation reimburses the City for salaries and fringe benefits for employees that provide services on behalf of the Corporation. The Corporation incurred charges of **\$240,130** (2018 - \$200,667) for these services and this expense has been included in the Statement of Operations.

During the year, the Corporation received municipal revenues from the shareholder, as follows:

- Operating budget appropriation revenue of **\$292,275** (2018 - \$281,015)
- Annual contribution to the affordable housing reserve fund of **\$2,000,000** (2018 - \$2,000,000)
- Administrative fee revenue of **\$496,656** (2018 - \$450,915)
- Municipal funding contribution of **\$nil** (2018 - \$255,401) for land acquisition. On May 30, 2017, the City of London Council passed a resolution to transfer lands from City of London ownership to the Corporation for affordable housing purposes. The transaction was completed during 2018 and recorded as a tangible capital asset addition by the Corporation, noting that the lands were transferred at their net book values, as follows:

	Net book value	Market value
403 Thompson Road, London	\$ 160,000	\$ 250,000
122 Baseline Road West, London	95,401	490,000
	\$ 255,401	\$ 740,000

The City Council resolution stipulates that the transfer will be subject to a 10-year reversion clause should the lands not be sold or developed by the Corporation.

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

4. Tangible Capital Assets

Cost	Balance at December 31, 2018	Additions	Disposals	Balance at December 31, 2019
Land	\$ 265,315	\$ 32,615	\$ -	\$ 297,930
Leasehold improvements	218,431	-	-	218,431
Office equipment and furniture	5,525	-	-	5,525
Total	\$ 489,271	\$ 32,615	\$ -	\$ 521,886

Accumulated Amortization	Balance at December 31, 2018	Amortization Expense	Disposals	Balance at December 31, 2019
Land	\$ -	\$ -	\$ -	\$ -
Leasehold improvements	36,405	43,686	-	80,091
Office equipment and furniture	1,322	1,105	-	2,427
Total	\$ 37,727	\$ 44,791	\$ -	\$ 82,518

	Net book value December 31, 2018	Net book value December 31, 2019
Land	\$ 265,315	\$ 297,930
Leasehold improvements	182,026	138,340
Office equipment and furniture	4,203	3,098
Total	\$ 451,544	\$ 439,368

5. Accumulated Surplus

Accumulated surplus consists of the following:

	2019	2018
Surplus:		
Invested in tangible capital assets	\$ 439,368	\$ 451,544
Total surplus	439,368	451,544
Reserve funds set aside for specific purpose by the Board:		
Future affordable housing	6,955,961	7,803,024
Total reserve funds (note 6)	6,955,961	7,803,024
Share capital:		
100 Class A common shares (note 7)	100	100
Total share capital	100	100
	\$ 7,395,429	\$ 8,254,668

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

6. Analysis of Reserve Fund

	2019	2018
Reserve fund for future affordable housing:		
Balance, beginning of year	\$ 7,803,024	\$ 5,990,560
Interest earned	183,800	132,286
Contributions from current operations:		
Annual	2,000,000	2,000,000
Current year (deficit) surplus	(32,578)	22,514
Transfers to current operations	(2,957,092)	(100,000)
Transfers to capital operations:		
Office leasehold improvements	-	(218,431)
Development of land for future use	(41,193)	(23,905)
Balance, end of year	\$ 6,955,961	\$ 7,803,024
	2019	2018
Comprised of:		
Contributions from the City of London, stipulated for use in future affordable housing projects	\$ 6,655,474	\$ 7,469,959
Accumulated operating surpluses held for future administration expenses	300,487	333,065
Balance, end of year	\$ 6,955,961	\$ 7,803,024

7. Share Capital

	2019	2018
Authorized:		
An unlimited number of Class A common shares		
An unlimited number of Class B common shares		
An unlimited number of Class C common shares		
An unlimited number of non-cumulative, redeemable, voting Class A Special shares		
An unlimited number of non-cumulative, redeemable, voting Class B Special shares		
An unlimited number of non-cumulative, redeemable, voting Class C Special shares		
An unlimited number of non-cumulative, redeemable, voting Class D Special shares		
An unlimited number of non-cumulative, redeemable, voting Class E Special shares		
Issued:		
100 Class A common shares	\$ 100	\$ 100

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

8. Budget Data

Budget data presented in these financial statements are based upon the 2019 operating budget approved by the City and interim Board and then transferred to the Corporation. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The chart below reconciles the approved budget with the budget figures as presented in these financial statements.

	Budget
Revenue	
Municipal revenue – The Corporation of the City of London	\$ 695,964
Total revenue	695,964
Expenses:	
Personnel costs	167,414
Administrative expenses	91,200
Purchased services	432,325
Materials and supplies	2,400
Furniture and equipment	2,625
Total expenses	695,964
Net surplus as per Approved Budget	\$ -
Public Sector Accounting Board (PSAB) Reporting Requirements and Budget adjustments:	
Decrease in government grants and subsidies	\$ (410,000)
Increase in municipal revenue	2,511,641
Increase in personnel costs and other expenses	(141,932)
Net PSAB Budget Surplus as per Financial Statements	\$ 1,959,709

9. Commitments

- (a) The City is responsible for the delivery and administration of affordable housing programs in the City of London and the County of Middlesex. The City has delegated responsibilities for the administration and development activities for capital development within the Rental Housing Component to the Corporation.

Under this delegated authority, the Corporation has entered into various Municipal Contribution Agreements related to Affordable Housing Programs. The agreements are between the Corporation, the City and the successful proponent, who is selected through a procurement process. The agreements establish the proponent's obligations with respect to the program and the Corporation's and City's obligation to provide funding to the proponent.

As at December 31, 2019, the Corporation has outstanding commitments remaining on these agreements of **\$221,588** (2018 - \$4,292,945).

HOUSING DEVELOPMENT CORPORATION, LONDON

Notes to Financial Statements (continued)

Year ended December 31, 2019

9. Commitments (continued)

- (b) The Corporation is committed to the following minimum annual operating lease payments for premises as follows:

2020	\$	23,125
2021		23,250
2022		23,875
2023		4,000
Total	\$	74,250

- (c) As at December 31, 2019, the Corporation has entered into two agreements of purchase and sale, to acquire certain properties, with the following expected completion dates and purchase prices:

Expected completion dates:		
June 22, 2020	\$	350,000
August 10, 2020		1,000,000
Total	\$	1,350,000

10. Subsequent event

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the Corporation has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic:

- Office closure to the public from March 18, 2020 to the date of the auditors' report based on public health recommendations
- Working from home requirements for those able to do so

At this time, these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.