

Financial Statements of

**LONDON & MIDDLESEX
COMMUNITY HOUSING INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of London & Middlesex Community Housing Inc.

Opinion

We have audited the financial statements of London & Middlesex Community Housing Inc. (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 change in net debt 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 change in net debt 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 ethical 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 21, 2020

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Statement of Financial Position

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

	2019	2018
Financial Assets:		
Cash	\$ -	\$ 1,520,921
Accounts receivable (note 3)	1,532,963	914,739
Due from The Corporation of the City of London	2,906,199	740,062
	<u>4,439,162</u>	<u>3,175,722</u>
Financial Liabilities:		
Cheques issued in excess of funds on deposit	99,637	-
Accounts payable and accrued liabilities	4,059,641	2,962,605
Tenant advances	741,071	649,246
Unearned miscellaneous revenue	48,397	67,672
	<u>4,948,746</u>	<u>3,679,523</u>
Net debt	(509,584)	(503,801)
Non-Financial Assets:		
Tangible capital assets (note 7)	58,878,638	54,281,872
Prepaid expenses	509,584	503,801
	<u>59,388,222</u>	<u>54,785,673</u>
Commitments (note 5)		
Subsequent events (note 10)		
Contingencies (note 11)		
Accumulated surplus (note 9)	\$ 58,878,638	\$ 54,281,872

See accompanying notes to financial statements

On behalf of the Board:

Director

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Statement of Operations

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

	Budget	2019	2018
Revenue:			
Rental revenue	\$ 11,731,910	\$ 11,870,011	\$ 11,460,132
The Corporation of the City of London:			
Rental subsidy	10,698,018	10,698,018	10,202,215
Funding adjustment	-	363,231	35,284
Capital funding	-	6,664,904	3,904,191
Other	200,902	340,231	292,406
	<u>22,630,830</u>	<u>29,936,395</u>	<u>25,894,228</u>
Expenses:			
Salaries, wages and employee benefits	5,121,239	5,576,501	5,239,281
Maintenance, materials and services:			
Building, general	3,982,824	4,590,332	3,554,708
Grounds	632,012	978,474	1,048,150
Painting	319,020	280,483	288,203
Other	228,497	164,541	145,870
	<u>5,162,353</u>	<u>6,013,830</u>	<u>5,036,931</u>
Utilities:			
Electricity	2,167,172	1,951,090	1,927,787
Water	1,114,961	1,237,439	1,147,591
Natural gas	857,071	837,752	884,663
	<u>4,139,204</u>	<u>4,026,281</u>	<u>3,960,041</u>
Amortization	-	1,930,562	1,680,278
Property:			
Municipal taxes	5,495,001	5,023,084	5,396,636
Insurance	641,724	647,776	598,618
Mortgage payments	46,911	46,475	46,871
	<u>6,183,636</u>	<u>5,717,335</u>	<u>6,042,125</u>
Administration	2,024,398	2,075,120	1,610,997
Total expenses	<u>22,630,830</u>	<u>25,339,629</u>	<u>23,569,653</u>
Annual surplus	-	4,596,766	2,324,575
Accumulated surplus, beginning of year	54,281,872	54,281,872	51,957,297
Accumulated surplus, end of year	<u>\$ 54,281,872</u>	<u>\$ 58,878,638</u>	<u>\$ 54,281,872</u>

See accompanying notes to financial statements

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Statement of Change in Net Debt

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

	Budget	2019	2018
Annual surplus	\$ -	\$ 4,596,766	\$ 2,324,575
Acquisition of tangible capital assets	-	(6,527,328)	(4,047,920)
Disposal of tangible capital assets net of accumulated amortization	-	-	43,067
Amortization of tangible capital assets	-	1,930,562	1,680,278
	-	(4,596,766)	(2,324,575)
Acquisition of prepaid expenses	-	(6,606,627)	(6,832,742)
Use of prepaid expenses	-	6,600,844	6,800,389
Change in net debt	-	(5,783)	(32,353)
Net debt, beginning of year	(503,801)	(503,801)	(471,448)
Net debt, end of year	\$ (503,801)	\$ (509,584)	\$ (503,801)

See accompanying notes to financial statements

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 4,596,766	\$ 2,324,575
Items not involving cash:		
Amortization	1,930,562	1,680,278
Loss on disposal of tangible capital assets	-	43,067
Changes in non-cash items:		
Accounts receivable	(618,224)	365,578
Prepaid expenses	(5,783)	(32,353)
Due from The Corporation of the City of London	(2,166,137)	539,094
Accounts payable and accrued liabilities	1,097,036	(888,901)
Tenant advances	91,825	25,909
Unearned miscellaneous revenue	(19,275)	9,697
	4,906,770	4,066,944
Capital activities:		
Acquisition of tangible capital assets	(6,527,328)	(4,047,920)
Net increase (decrease) in cash	(1,620,558)	19,024
Cash, beginning of year	1,520,921	1,501,897
Cash (cheques issued in excess of funds on deposit), end of year	\$ (99,637)	\$ 1,520,921

See accompanying notes to financial statements

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Notes to the Financial Statements

Year ended December 31, 2019

1. Incorporation:

London & Middlesex Community Housing Inc. (formerly 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:

Assets	Useful Life-Years
Site improvements	25 - 30
Buildings and improvements	25 - 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.

(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 the 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.

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Notes to the Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(e) Pension contributions:

The Corporation has a pension agreement with the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer defined contribution benefit plan. The Corporation's costs are the contributions due to the plan in the period.

(f) 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 organisms that exceeds the 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.

3. Accounts receivable:

Accounts receivable recorded on the statement of financial position are composed of the following:

	2019	2018
Rent	\$ 823,537	\$ 784,566
Allowance for doubtful accounts	(464,295)	(417,084)
Harmonized Sales Tax	566,076	261,841
Sundry	607,645	285,416
	\$ 1,532,963	\$ 914,739

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 2019 (2018 - \$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

2020	\$	342,923
2021		140,715

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Notes to the Financial Statements (continued)

Year ended December 31, 2019

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. In 2019 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 \$370,803 was incurred as pension expense in 2019 (2018 - \$343,064).

The last available report for the OMERS plan was on December 31, 2019. At that time, the plan reported a \$3.4 billion actuarial deficit (2018 - \$4.2 billion), based on actuarial liabilities for \$107.7 billion (2018 - \$99 billion) and actuarial assets for \$104.3 billion (2018 - \$95 billion). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

7. Tangible capital assets:

Cost	Balance at December 31, 2018	2019 Additions	2019 Disposals	Balance at December 31, 2019
Land	\$ 24,605,751	\$ -	\$ -	\$ 24,605,751
Site improvements	3,433,364	-	-	3,433,364
Buildings and improvements	87,993,654	5,968,918	-	93,962,572
Technology and communications	829,700	403,420	48,778	1,184,342
Vehicles	48,297	-	-	48,297
Furniture and fixtures	230,017	-	-	230,017
Machinery and equipment	3,485,546	21,002	-	3,506,548
Appliances	1,996,583	133,988	-	2,130,571
TOTAL	\$ 122,622,912	\$ 6,527,328	\$ 48,778	\$ 129,101,462

Accumulated Amortization	Balance at December 31, 2018	2019 Disposals	2019 Amortization	Balance at December 31, 2019
Site improvements	\$ 1,745,682	\$ -	\$ 75,798	\$ 1,821,480
Buildings and improvements	62,665,927	-	1,489,199	64,155,126
Technology and communications	611,684	48,778	165,755	728,661
Vehicles	31,395	-	4,830	36,225
Furniture and fixtures	98,565	-	22,948	121,513
Machinery and equipment	1,571,250	-	108,812	1,680,062
Appliances	1,616,537	-	63,220	1,679,757
TOTAL	\$ 68,341,040	\$ 48,778	\$ 1,930,562	\$ 70,222,824

	Net Book Value At December 31, 2018	Net Book Value At December 31, 2019
Land	\$ 24,605,751	\$ 24,605,751
Site improvements	1,687,682	1,611,884
Buildings and improvements	25,327,727	29,807,446
Technology and communications	218,016	455,681
Vehicles	16,902	12,072
Furniture and fixtures	131,452	108,504
Machinery and equipment	1,914,296	1,826,486
Appliances	380,046	450,814
TOTAL	\$ 54,281,872	\$ 58,878,638

LONDON & MIDDLESEX COMMUNITY HOUSING INC.

Notes to the Financial Statements (continued)

Year ended December 31, 2019

8. Capital allotment:

An approved capital allotment is managed by the City of London to finance future capital expenditures. The allotment has not been recognized in these financial statements and will be accounted for as the funds are received and expensed.

	2019	2018
Opening balance	\$ 2,979,582	\$ 1,735,040
Contributions during the year	2,708,000	2,708,000
Capital expenditures	(3,576,926)	(1,463,588)
	\$ 2,110,656	\$ 2,979,452

9. Accumulated Surplus:

Accumulated surplus consists of surplus funds as follows:

	2019	2018
Surplus:		
Invested in tangible capital assets	\$ 58,878,638	\$ 54,281,872

10. Subsequent Events:

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

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

- Closure of administrative buildings, community facilities, and on-site programs from March 17, 2020 to the date of the auditors' report based on public health recommendations
- Reduced rotational staff schedules
- Termination of contract employees

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.

11. Contingencies:

The Corporation is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. It has been determined by management that an unfavourable settlement for certain of these claims is likely, however the amount of the loss is indeterminable at the date of the financial statements and, as such, no amount has been included in these financial statements.