

Financial Statements of

**HOUSING DEVELOPMENT CORPORATION,
LONDON**

And Independent Auditors' Report thereon

December 31, 2021



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INDEPENDENT AUDITORS' REPORT

To the Shareholder 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, 2021
- 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, 2021, 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 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 30, 2022

HOUSING DEVELOPMENT CORPORATION, LONDON
Statement of Financial Position
December 31, 2021, with comparative information for 2020

	2021	2020
Financial assets		
Due from the Corporation of the City of London (note 3)	\$ 6,468,212	\$ 6,955,352
Trade and other receivables	1,863,613	170,290
Loan receivable	224,842	220,558
Total financial assets	8,556,667	7,346,200
Financial liabilities		
Accounts payable and accrued liabilities	1,797,149	331,199
Long-term debt (note 4)	17,760	-
Deferred revenue	5,671	7,961
Total financial liabilities	1,820,580	339,160
Net assets	6,736,087	7,007,040
Non-financial assets		
Tangible capital assets (note 5)	21,275,451	2,735,914
Prepaid expenses	8,321	7,847
Total non-financial assets	21,283,772	2,743,761
Commitments (note 10)		
Subsequent events (note 12)		
Accumulated surplus (note 6)	\$28,019,859	\$ 9,750,801

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

HOUSING DEVELOPMENT CORPORATION, LONDON**Statement of Operations****Year ended December 31, 2021, with comparative information for 2020**

	Budget	2021	2020
	(note 9)		
Revenues			
Transfer payments			
Municipal - the Corporation of the City of London (note 3)	\$ 15,783,922	\$ 18,854,525	\$ 3,249,118
Federal	152,000	203,733	93,764
Interest income	90,000	155,372	166,201
Total revenues	16,025,922	19,213,630	3,509,083
Expenses			
Salaries, wages and fringe benefits	731,762	622,313	659,559
Materials and supplies	70,087	44,949	55,034
Contracted services	54,560	74,613	84,843
Office rental expense	31,000	27,038	25,824
External transfers	-	131,060	283,660
Amortization of tangible capital assets (note 5)	44,599	44,599	44,791
Total expenses	932,008	944,572	1,153,711
Annual surplus	15,093,914	18,269,058	2,355,372
Accumulated surplus, beginning of year (note 6)	9,750,801	9,750,801	7,395,429
Accumulated surplus, end of year (note 6)	\$ 24,844,715	\$ 28,019,859	\$ 9,750,801

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

HOUSING DEVELOPMENT CORPORATION, LONDON
Statement of Change in Net Financial Assets
Year ended December 31, 2021, with comparative information for 2020

	Budget	2021	2020
Annual surplus	\$ 15,093,914	\$ 18,269,058	\$ 2,355,372
Acquisition of tangible capital assets	(18,584,136)	(18,584,136)	(2,341,337)
Amortization of tangible capital assets	44,599	44,599	44,791
	(3,445,623)	(270,479)	58,826
Change in prepaid expenses	-	(474)	(64)
Change in net financial assets	(3,445,623)	(270,953)	58,762
Net financial assets, beginning of year	7,007,040	7,007,040	6,948,278
Net financial assets, end of year	\$ 3,561,417	\$ 6,736,087	\$ 7,007,040

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

HOUSING DEVELOPMENT CORPORATION, LONDON
Statement of Cash Flows
Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 18,269,058	\$ 2,355,372
Items not involving cash		
Amortization of tangible capital assets	44,599	44,791
Change in non-cash assets and liabilities		
Due from the Corporation of the City of London	487,140	(181,606)
Prepaid expenses	(474)	(64)
Trade and other receivables	(1,693,323)	(94,395)
Loans receivable	(4,284)	(6,353)
Accounts payable and accrued liabilities	1,465,950	225,881
Deferred revenue	(2,290)	(2,289)
Net change in cash from operating activities	18,566,376	2,341,337
Capital activities		
Purchase of tangible capital assets	(18,584,136)	(2,341,337)
Net change in cash from capital activities	(18,584,136)	(2,341,337)
Financing activities		
Proceeds from issuance of long term debt	17,760	-
Net change in cash from financing activities	17,760	-
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, 2021

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.

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.

2. Significant Accounting Policies (continued)

(g) Related Party Disclosures

Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.

Disclosure is made 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.

(h) Inter-entity Transactions

Transactions between related parties are recorded at carrying amounts with the exception of the following:

- Transactions in the normal course of business are recorded at exchange amount.
- Transactions with fair value consideration are recorded at exchange amount.
- Transfer of an asset or liability at nominal or no consideration is recorded by the provider at carrying amount and the recipient has the choice of either 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 maybe recorded by the provider at cost, fair value or another amount dictated by policy, accountability structure or budget practice.

HOUSING DEVELOPMENT CORPORATION, LONDON
Notes to Financial Statements (continued)
Year ended December 31, 2021

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 **\$183,397** (2020 - \$193,017) 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 **\$416,409** (2020 - \$342,987)
- Annual contribution to the affordable housing reserve fund of **\$2,770,000** (2020 - \$2,500,000)
- Administrative fee revenue of **\$262,160** (2020 - \$406,131)
- Municipal funding contribution of \$15,405,956 (2020 - \$nil) towards building construction.
- Municipal funding contribution of **\$nil** (2020 - \$nil) 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, 2021

4. Long-term Debt

The Corporation received funding from Canada Mortgage Housing Corporation (CMHC) under the Seed Funding Program, established pursuant to Section 76, of the National Housing Act, for the development or implementation of proposals to help increase the supply of affordable housing and to assist the continued viability and affordability of existing projects. The Seed Funding Program offers funding under a grant program as well as a loan program. Under the grant program, the Corporation received \$150,000 in grant revenue during the year. This has been reported in the statement of operations.

The Corporation also received funding in 2021 that is subject to a loan agreement between the Corporation and CMHC, where CMHC agrees to provide a loan up to an amount of \$45,000. As of year-end, advances in the amount of \$17,760 had been received by the Corporation.

Long-term debt is as follows:

	2021	2020
Long-term debt issued by CMHC under Seed Funding Program	\$ 17,760	\$ -

Principal repayment is due on the maturity date of August 5, 2023.

There is no interest expense on long-term debt incurred during the year. The Corporation will not be required to pay interest on the repayment amount until the maturity date of August 5, 2023. Interest on the repayment amount will commence on the 30th day following the maturity date, at an interest rate equal to Canada Prime Rate plus two percent (2%). Interest is calculated semi-annually and not in advance.

HOUSING DEVELOPMENT CORPORATION, LONDON
Notes to Financial Statements (continued)
Year ended December 31, 2021

5. Tangible Capital Assets

Cost	Balance at December 31, 2020	Additions	Disposals	Balance at December 31, 2021
Land	\$ 2,639,267	\$ 438,075	\$ -	\$ 3,077,342
Leasehold improvements	218,431	-	-	218,431
Office equipment and furniture	5,525	-	-	5,525
Assets under construction	-	18,146,061	-	18,146,061
Total	\$ 2,863,223	\$ 18,584,136	\$ -	\$ 21,447,359

Accumulated Amortization	Balance at December 31, 2020	Amortization Expense	Amortization Disposals	Balance at December 31, 2021
Land	\$ -	\$ -	\$ -	\$ -
Leasehold improvements	123,777	43,686	-	167,463
Office equipment and furniture	3,532	913	-	4,445
Total	\$ 127,309	\$ 44,599	\$ -	\$ 171,908

	Net Book Value December 31, 2020	Net Book Value December 31, 2021
Land	\$ 2,639,267	\$ 3,077,342
Leasehold improvements	94,654	50,968
Office equipment and furniture	1,993	1,080
Assets under construction	-	18,146,061
Total	\$ 2,735,914	\$ 21,275,451

HOUSING DEVELOPMENT CORPORATION, LONDON
Notes to Financial Statements (continued)
Year ended December 31, 2021

6. Accumulated Surplus

Accumulated surplus consists of the following:

	2021	2020
Surplus		
Invested in tangible capital assets	\$ 21,275,451	\$ 2,735,914
Capital deficit	-	(132,358)
Total surplus	21,275,451	2,603,556
Reserve funds set aside for specific purpose by the Board		
Future affordable housing (note 7)	6,744,308	7,147,145
Share capital		
100 Class A common shares (note 8)	100	100
	\$ 28,019,859	\$ 9,750,801

7. Analysis of Reserve Fund

	2021	2020
Reserve fund for future affordable housing:		
Balance, beginning of year	\$ 7,147,145	\$ 6,955,961
Interest earned	155,372	166,201
Contributions from current operations:		
Annual	2,770,000	2,500,000
Transfers to current operations	(136,927)	(283,660)
Transfers to capital operations:		
Development of land for future use	(3,191,282)	(2,191,357)
Balance, end of year	\$ 6,744,308	\$ 7,147,145

	2021	2020
Comprised of:		
Contributions from the City of London, stipulated for use in future affordable housing projects	\$ 6,449,687	\$ 6,846,658
Accumulated operating surpluses held for future administration expenses	294,621	300,487
Balance, end of year	\$ 6,744,308	\$ 7,147,145

HOUSING DEVELOPMENT CORPORATION, LONDON
Notes to Financial Statements (continued)
Year ended December 31, 2021

8. Share Capital

	2021	2020
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, 2021

9. Budget Data

Budget data presented in these financial statements are based upon the 2021 operating budget approved by the Board. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. These adjustments include revenues and expenses which were budgeted in the capital budget and amortization. Given that certain budget information is not available in full accrual format, the assumption of using budget adjustments that equal the actual full accrual adjustments was used. These full accrual budget estimates are for financial statement presentation only.

The chart below reconciles the approved budget with the budget figures as presented in these financial statements.

	Budget
Revenues	
Municipal revenue – The Corporation of the City of London	\$ 3,589,562
Municipal revenue – Transfers from capital and reserve fund	44,000
Government grants	2,000
Total Revenues	3,635,562
Expenses	
Personnel costs	501,985
Administrative expenses	46,500
Financial expense - Transfers to reserve fund	2,770,000
Purchased services	105,942
Materials and supplies	11,490
Furniture and equipment	15,000
Recovered expenses	184,645
Total expenses	3,635,562
Net surplus as per approved budget	-
PSAB reporting requirements and Budget adjustments:	
Capital program funding earned in year	12,322,513
Decrease in transfers to (from) capital and reserve fund	2,726,000
Increase in amortization	(44,599)
Increase in interest income - reserve fund	90,000
Net PSAB budget surplus as per financial statements	\$ 15,093,914

HOUSING DEVELOPMENT CORPORATION, LONDON
Notes to Financial Statements (continued)
Year ended December 31, 2021

10. 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, 2021, the Corporation has outstanding commitments remaining on these agreements of **\$629,475** (2020 - \$255,531).

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

2022	\$	23,875
2023		4,000
Total	\$	27,875

11. Impact of COVID-19 Pandemic

Effective March 11, 2020, 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

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Corporation's operations and financial position is not known at this time, although to date the impact has not been significant. These impacts could include a decline in future cash flows and changes to the value of assets and liabilities. Though management continues to make best efforts to forecast possible financial scenarios, an estimate of the future financial effect of the pandemic on the Corporation is not practicable at this time.

12. Other matters

Since year-end, the Corporation of the City of London (City), the sole shareholder of the Corporation, has undertaken resolutions to direct the transition of the affordable housing portfolio of the Housing Development Corporation, London into the City's corporate structure, including the Corporation's staff and business operations. At its Municipal Council meeting on March 23, 2021, the City resolved to have Civic Administration work and report back on the recommendations to winding up the Corporation when it has been confirmed that all commitments and functions of the Corporation have been assumed by the City.