

Annual Report

2020/2021



Home
Construction
Regulatory
Authority

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INTRODUCTION

The Home Construction Regulatory Authority (HCRA) is a new administrative authority designated by the Government of Ontario under the New Home Construction Licensing Act, 2017 (NHCLA) to regulate and license Ontario's new home builders and vendors. The HCRA is a self-funded not-for-profit corporation without share capital.

The scope of this report is the 2020-2021 fiscal year. The HCRA was designated on February 1, 2021 and will report on activities up until the end of the fiscal year, which is March 31, 2021.



CORPORATE OVERVIEW

Mandate

The HCRA is responsible for licensing the people and companies who build and sell new homes in Ontario. It is accountable for enforcing professional standards for competence and good conduct while promoting and supporting a fair, safe and informed marketplace. The HCRA will serve to enhance consumers' confidence in one of the biggest purchases of their lives – a new home. It will also provide educational information and resources for consumers, including the Ontario Builder Directory, the official source of information about Ontario's builders and vendors.

Mission

- A well-regulated industry building better homes
- Continuous enhancement of consumer protection and home buyer confidence
- Fairness and efficiency
- Collaborating and innovating as a team and with stakeholders

Values

Fairness, Honesty and Integrity

Acting truthfully and objectively to inspire confidence and trust from consumers and the home building industry.

Service Excellence

Providing responsive, efficient and effective services.

Openness and Accountability

Being transparent in, and accountable for, our actions and decisions.

Collaboration and Innovation

Working as a team along with consumers and the industry to listen, learn and continuously seek new ideas, approaches and solutions.

Diversity and Inclusion

Welcoming all people and ideas with a commitment to inclusion, treating everyone respectfully and without bias.



THE YEAR IN NUMBERS

Feb 1, 2021 to March 31, 2021

1,273

licence applications received

232

new applications

1,041

renewals

27

licences issued

17
new

10
renewals



149

complaints received

54

complaints against
non-licensed builders

95

against licensed builders



MESSAGE FROM THE CHAIR OF THE BOARD



Virginia West

Our first annual report. What an incredible milestone.

As I reflect on 2020, I am extremely proud of what the HCRA team has accomplished. First and foremost, we have officially launched as Ontario's newest administrative authority. This was not a small accomplishment; there were multiple steps, all undertaken in the new and unforeseen circumstances of operating within the confines of pandemic restrictions.

With the separation of the licensing function from Tarion Warranty Corporation, a new licensing system had to be developed in preparation for launch. Stakeholder engagement – a critical part of our process – was adapted mid-stream to accommodate lockdown protocols, requiring flexibility and commitment from both the HCRA team and our stakeholders to continue their engagement virtually throughout the year leading up to the start of operations. And the Ontario Builder Directory, a large and dynamic database, was transferred over to the HCRA and enhanced to ensure consumers have access to timely and relevant information to make informed decisions.

These are but a few of the many milestones we reached this past year to achieve our successful launch. It took hard work and commitment, and all involved should be celebrated for their efforts.

In this unprecedented year of disruption, I want to thank our stakeholders – both consumer and industry members – for taking this journey with us as we navigate this new era of home building in Ontario together. I want to also express my appreciation to the HCRA team for taking on the challenge of launching a new organization in the midst of the COVID-19 pandemic.

It has been my privilege to work alongside my fellow Board members in helping launch this new organization. I would like to give a special thank you to Tim Hadwen for serving as Interim CEO for the past two years and leading the organization to its successful launch. His persistence, collaboration, passion for excellence and support for the Board were greatly valued. On behalf of the Board, we wish him the best in his retirement.

Looking ahead, we have a capable and effective team here at the HCRA to build on the foundation we have established this past year. We are excited to have Wendy Moir Acheson leading the organization as our CEO and Registrar. Our confidence is magnified by the excellent team Wendy has behind her. I see an exciting future for this organization and for Ontario's home building sector.

Virginia West
Chair of the Board of Directors



MESSAGE FROM THE CEO AND REGISTRAR



Wendy Moir Acheson

Building an organization from the ground up is a formidable enough task, with legislative deadlines, early resourcing issues to be solved, and an urgent need to start meeting stakeholder expectations. Then layer an unprecedented health and economic crisis onto it and you have the daunting challenge faced by the Home Construction Regulatory Authority as it prepared for and launched operations.

I am pleased to say that the resiliency, creativity and pure hard work demonstrated by a strong and dedicated Board of Directors and staff helped the HCRA weather that storm remarkably well. We were able to launch basic services on time while still building the organization and committing to continual improvement. This inaugural annual report outlines our preliminary results for the two months of the 2020/2021 fiscal year that the HCRA was officially open, but also marks the important milestones preceding the opening of our doors on February 1, 2021.

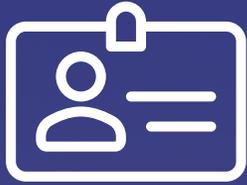
And when I say “open doors” I mean, of course, our virtual open doors. While other organizations adapted to working remotely when the pandemic struck in 2020 by moving from designated office space to at-home work, the HCRA’s staff never occupied our new office space. However, the HCRA was designed as a “digital first” organization and this made the remote development and then delivery of our

services much smoother. Not only were staff able to work from home seamlessly, online services and education through the website and webinars were already part of the plan. The benefits of remote working and the provision of online services will serve us beyond the pandemic and into the future.

Another interesting aspect about the organization being born during a pandemic is that most HCRA staffers have never met each other in person. When I started in April 2021 as CEO most staff had been hired already. I was struck by how well the team had begun to develop solid working relationships even with the restrictions in place, driven by a conscious and sustained effort to meet the challenges. That will be a theme for the HCRA as we continue to make improvements, stabilize the organization and achieve a “steady state” in the months to come.

Wendy Moir Acheson
CEO and Registrar





5,000+ licensees

BACKGROUND

Who We Are

The HCRA regulates new home builders and vendors in Ontario. It protects the public interest through a fair, safe and informed marketplace that supports the goal of a continuously improved home building industry across the province.

The HCRA holds licensed builders to professional standards, safeguards the public and enhances consumer confidence in Ontario's home building industry. In addition, the HCRA strives to educate consumers to ensure that they can make informed decisions and understand the benefits of a regulated home building sector.

The HCRA is a not-for-profit corporation that is designated by the provincial government to administer and enforce the New Home Construction Licensing Act, 2017 and associated regulations.

What We Do

The HCRA protects consumers and enforces high professional standards by:

- **Licensing** – setting and monitoring standards of professional qualifications and conduct.
- **Managing complaints** – timely and fair review and disposition of builder or vendor conduct complaints.
- **Enforcement** – deterring illegal or unethical new home building and vending through investigation and possible prosecution.
- **Education** – maintaining the Ontario Builder Directory and promoting awareness of the new home buying process to new home buyers; educating licensees on expected competencies and standards of conduct.



REPORT ON PERFORMANCE

Performance Measures

The HCRA understands the importance of establishing performance measures and reporting on them. Measures promote continuous improvement and demonstrate how effective the HCRA is at carrying out its mandate. To that end, the HCRA is collecting baseline data with which to develop performance measures for future reporting periods.

The HCRA was designated on February 1, 2021 and is reporting on its 2020-2021 fiscal activities only in this report. Performance measures are still being developed and will be highlighted in future reports.

Regulatory Affairs

New Home Construction Licensing Act, 2017

On February 1, 2021, the New Home Construction Licensing Act, 2017 (NHCLA) and several regulations came into force. The NHCLA and its regulations designated the HCRA as a new administrative authority. The NHCLA provides the HCRA with modern licensing, complaints and compliance tools to administer a strengthened regulatory framework for new home builders and vendors in Ontario.

Corporate Policies

Corporate policies are used to guide the organization's decision-making. These policies are Board-approved and are publicly available for viewing on the HCRA website.

Summary of By-Law Amendments

On February 1, 2021, amendments to the HCRA's By-Law No. 1 took effect. Amendments were made related to the designation of the HCRA

as the regulatory authority under the NHCLA, board composition of six elected directors (at least one of which must be a licensee) and three directors appointed by the Minister, the election of directors and introduction of staggered terms for the first election taking place at the 2021 Annual Meeting, two standing committees of the Board, public attendance at the Annual Meeting of Members, and statutory appointments. The Amended and Restated By-Law No. 1 is posted on the HCRA's website.

Complaints Process

Over the first two months of operations, the HCRA received 149 complaints. Of these, 54 were complaints against non-licensed builders and 95 complaints were against licensed builders. The HCRA evaluates each complaint to determine the most appropriate action to address the specific concern and to support ongoing builder and vendor compliance.

The HCRA relies on the information and feedback provided by the public as one important way to identify and address violations of the rules. Complaints highlight potential and real harms faced by consumers. The HCRA appreciates receiving this valuable intelligence to not only support its ongoing compliance efforts, but to also inform future regulatory and policy initiatives so that the HCRA can act proactively.

Accessibility

The HCRA is committed to ensuring that all services are accessible in accordance with the Accessibility for Ontarians with Disabilities Act, 2005 and any other relevant accessibility requirements. The HCRA will be respectful of people with different abilities by removing barriers where needed.



French Language Services

The HCRA is committed to providing French language services to both the public and the industry, in accordance with section 28 of the NHCLA. Calls and inquiries to the HCRA contact centre can be addressed in French and the HCRA's website is fully bilingual (English/

French). The HCRA received approximately 100 inquiries in French during the first two months of operations.

For new home builders and vendors, all licensing applications can be submitted and processed in French.



CORPORATE GOVERNANCE

The HCRA is governed by a nine-person Board of Directors, consisting of six elected members and up to three members appointed by the Minister of Government and Consumer Services. The HCRA's Board of Directors is responsible for providing strategic leadership to the HCRA.

Competency Criteria

The HCRA's Board must meet a set of competencies, which are outlined in Schedule C of the HCRA's Administrative Agreement with the Minister of Government and Consumer Services. Each Board member brings unique skills and experience that complement other Board members and collectively support the Board's ability to provide strategic leadership. Basic qualifications for the Board as a whole include:

- Financial oversight and risk management
- Governance and strategic planning
- Government, licensing and regulatory experience
- Home building sector knowledge
- Consumer protection knowledge
- Human resources, diversity and accessibility experience
- Marketing and communications experience

Appointment Process

The six elected members of the Board of Directors are elected at the Annual Meeting of members. The Board is responsible for recommending candidates for election and their respective terms. The Minister appoints up to three members to the Board of Directors.

Board Committees

Governance, People and Culture Committee

Mary Kardos Burton (Chair), Eric DenOuden, Rinku Deswal, Hugh Heron

The purpose of the Governance, People and Culture Committee is to assist the Board by providing direction and oversight of governance issues and ensuring that appropriate policies, processes and structures necessary for effective Board direction and oversight of the HCRA are in place. This includes establishing policies and processes related to the recruitment and selection of candidates for election to the Board as well as evaluating the performance of the CEO.

Finance, Audit and Risk Committee

Av Maharaj (Chair), Marg Rappolt, David Stimac, Terence Young

The purpose of the Finance, Audit and Risk Committee is to assist the Board in meeting its duties with respect to financial oversight, business planning and enterprise risk management. This includes review of financial plans, revenue strategies and budgets as well as oversight of information technology.

Code of Conduct for Board Members

The Board adopted and signed a Code of Conduct that has been posted publicly on the HCRA's website and is also included as Schedule D of the HCRA's Administrative Agreement. The Code governs the conduct of the Board and sets out guidelines for avoiding and disclosing conflicts of interest and keeping information confidential.



Board of Directors Biographies

VIRGINIA WEST

CHAIR



Virginia West is a former Deputy Minister in the Ontario government serving in five successive portfolios over a twelve-year period, which included the Solicitor General, Public Safety and Security, Environment, Labour, and Natural Resources. She has also held leadership positions at the municipal level of government as Commissioner of City Property for the City of Toronto, Chief Administrative Officer for the Borough of East York, and the first Commissioner of Urban Planning and Development for the amalgamated City of Toronto. Virginia is also the Chair of the Board at the Ontario Motor Vehicle Industry Council and a member of the Board of Directors of the Canadian Red Cross. Until June 2021 Virginia was a Board Director and Vice-Chair of Unity Health Toronto.

MARG RAPPOLT

VICE CHAIR

Strategic leader in public policy and human service transformation. Worked for 36 years in two provincial administrations (Ontario and Saskatchewan) and retired in 2014. Former Deputy Minister with the Ontario government with portfolios including: Community and Social Services, Health and Long-Term Care, Health Promotion, Seniors, Aboriginal Affairs, and the Ministry of the Attorney General. Marg also currently chairs the Board of Trustees of the Holland Bloorview Kids Rehabilitation Hospital.



ERIC DENOUDEN

Eric DenOuden is the President of Hilden Homes Ltd and DenOuden Inc. He has over 40 years of building and land development experience, developing a diverse range of communities throughout the greater Quinte Region. Over those years the award winning company has been a leader in advanced housing design and building technology.

Eric previously served as a board member and President for the Quinte Home Builders Association, Ontario Home Builders Association and the Canadian Home Builders Association. He is also a former Board member and Chair of Redeemer University.



RINKU DESWAL

Rinku Deswal is a lawyer and the owner of RD Law Professional Corporation. She has 17 years of litigation experience and was formerly Counsel at Paterson MacDougall LLP and Bersenas Jacobsen Chouest Thomson Blackburn LLP. Rinku has served as Board Chair for Peel Crime Stoppers and as a Board member for St. John Ambulance (Peel Region). She has been awarded the Safe City Mississauga Bell Hero Award for her work in crime prevention in the Region of Peel.



HUGH HERON

Hugh Heron is the Chairman of Heathwood Homes and Heron Homes. With over 50 years of building experience, Hugh's building entities have built over 8,000 homes across Ontario. He has been a leader in the industry previously serving as Chair of the Tarion Warranty Corporation, President of both the Greater Toronto and Ontario Builders' Associations as well as a Senior Board Member of the Canada Mortgage and Housing Corporation. In 2018, Hugh was awarded a Lifetime Achievement Award by the Building Industry and Land Development Association. Hugh is also Chairman of the Mikey Network, a charity placing defibrillators throughout Canada.



MARY KARDOS BURTON

Mary Kardos Burton is a former Assistant Deputy Minister in the Ontario government with the Ministry of Health and Long-Term Care. She also held executive positions with the Ministry of Community and Social Services. Mary has held various consulting assignments in health and social services including Chair of Built Environment Standards for the Accessibility Directorate of Ontario and Interim Vice-President for Health Quality Ontario. In addition, she served as a public member for the College of Registered Psychotherapists and as Chair of the Board for Belmont House, a long-term care and retirement home. Mary is a graduate of the Rotman-ICD NFP Governance Essentials Program.



AV MAHARAJ

Named by the Globe and Mail's Report on Business Magazine as one of the top 50 Executives in Canada in 2020, Av Maharaj is the Chief Administrative Officer & VP of Legal, Corporate Affairs and HR for Kraft Heinz Canada.

Prior to that Av held senior positions at the Kellogg Company including serving as a member of the Canadian Executive Leadership Team, and Vice President, International, Legal, where he was responsible for all legal operations of Kellogg across the globe outside of the United States.

Av is the past Chair of Legal Leaders for Diversity and continues to be a passionate advocate for diversity and inclusion in the legal profession. Av has also been named In-House Counsel of the Year by the South Asian Bar Association and a Diversity Champion by Women of Influence. Prior to his roles at Kellogg, Av practiced law at Fasken Martineau and Blake, Cassels & Graydon, focusing on securities, M&A and corporate law.

Av holds an Honours Degree in Economics and a Law Degree from Western University.



DAVID STIMAC

President of the Ironstone Building Company Inc. and Talu Properties Inc. Past president of the London Home Builders Association and served on the Board of Directors of the Ontario Home Builders' Association and the Canadian Home Builders' Association. David also holds an MBA from the University of Windsor.

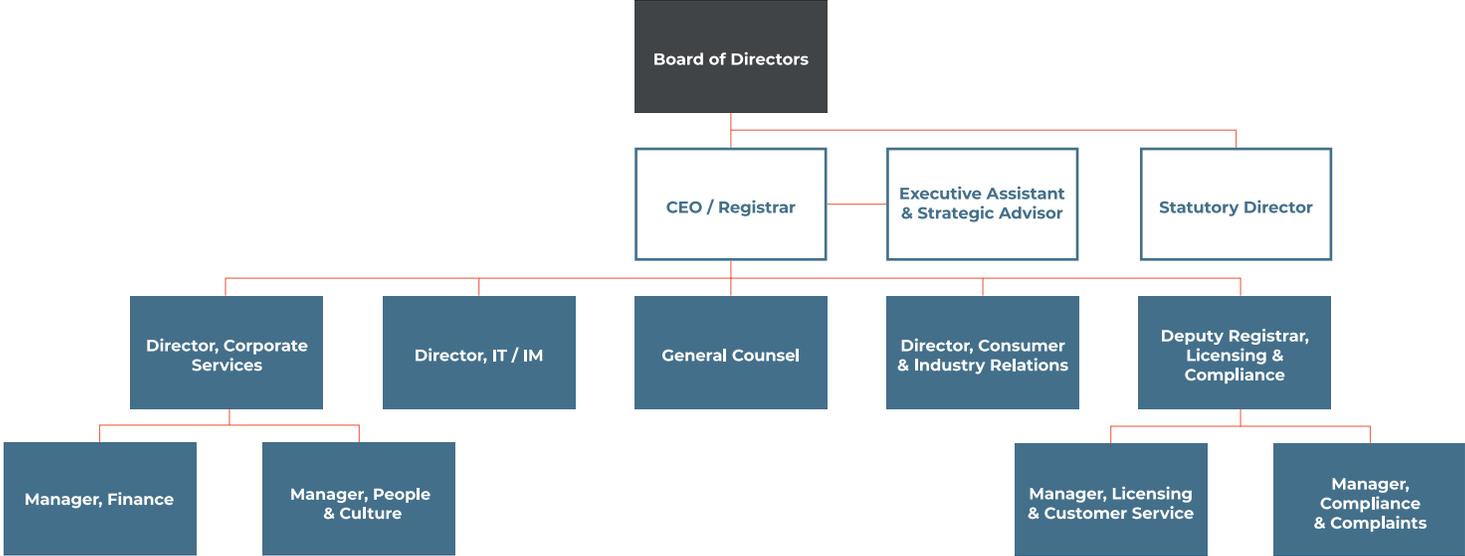




TERENCE YOUNG

Terence Young is the President of Gravitas Strategies, a strategic communications firm. He has 30 years' experience in the private sector, and served as Board Member and adjudicator for the Alcohol and Gaming Commission. Terence served as an elected Member of the Ontario Legislature from 1995 until 1999, as Parliamentary Assistant to the Minister of Finance, and Colleges and Universities, and also served as a Federal Member of Parliament from 2008 to 2015 where he conceived, and galvanized Parliament to pass Vanessa's Law: The Protecting Canadians from Unsafe Drugs Act. Terence also holds an ICD.D designation.

Corporate Structure



FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

The Home Construction Regulatory Authority (HCRA) is a private, not-for-profit corporation without share capital that was designated by the Government of Ontario on February 1, 2021.

The following management discussion and analysis provides supplementary information for stakeholders and other readers of the financial statements of the Home Construction Regulatory Authority (HCRA) for the financial year ending March 31, 2021. The analysis should be read in conjunction with the audited financial statements for the year ended March 31, 2021, prepared in accordance with the Canadian Accounting Standards for not-for-profit organizations.

Revenues

Operating revenues for the fiscal year ended March 31, 2021 derived primarily from funding received from Tarion Warranty Corporation, new licensing and renewal fees, and a per unit oversight fee. Other income revenue includes interest earned, which is recognized as it is earned.

The revenue details for FY 2020-21 (2021) and FY 2019-20 (2020) are as follows:

Category	2021	2020
Tarion Warranty Corporation funding for operations	7,427,285	3,032,949
New licensing and renewal fees	918,006	
Per unit oversight fees	1,061,620	
Other income	45,077	39,984
Amortization of deferred capital contributions	108,526	9,003

Expenses

The total operational expenses were \$8,868,965 for fiscal year 2020-21 compared to \$3,081,936 for the prior period. Operating expenses of \$7,579,310 were funded by the "Build-out" funding received from Tarion Warranty Corporation up to HCRA doors open on February 1, 2021. After doors open, operating expenses of \$1,289,655 was supported by the collection of fees.

Category	2021	2020
Human Resources	3,045,400	917,242
Consulting Services	1,059,498	774,924
Information Technology	3,446,838	709,263
Office space	459,712	198,358
Legal services	241,091	191,001
Board Expenses	152,288	167,000
Financial services	320,425	95,070
General and administrative	35,187	20,075
Amortization of capital assets	108,526	9,003



Net Assets

As an administrative authority, the HCRA's principal objective is to manage net assets in a manner that allows the organization to continue meeting the administrative agreement requirements agreed to with the Government of Ontario.

Net assets are represented by an excess of revenues over expenses. For fiscal year ended March 31, 2021, net assets were \$691,549. The balance is comprised of operating revenues of \$1,981,204 over operating expenses of \$1,289,655 since operations commenced on February 1, 2021.

The surplus was invested in capital additions, \$213,639 and general operations, \$477,910.





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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Home Construction Regulatory Authority

Opinion

We have audited the financial statements of Home Construction Regulatory Authority (the Entity), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations for the year then ended
- the statement of changes in net 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 March 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report 2020/2021.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report 2020/2021 as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 accounting standards for not-for-profit organizations, 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

Vaughan, Canada

August 12, 2021



Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 2,811,718	\$ 4,840,618
Short-term investments	–	7,000,000
Accounts receivable	436,804	39,958
Prepaid expenses	298,686	138,515
	3,547,208	12,019,091
Tangible capital assets (note 2)	541,494	45,328
Intangible capital assets (note 2)	2,726,152	277,257
	\$ 6,814,854	\$ 12,341,676
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 911,520	\$ 844,080
Deferred revenue (note 3)	1,657,778	11,175,011
	2,569,298	12,019,091
Deferred capital contributions (note 4)	3,054,007	322,585
Loan payable (note 5)	500,000	–
	3,554,007	322,585
Net assets:		
Investment in tangible and intangible capital assets	213,639	–
Unrestricted	477,910	–
	691,549	–
Economic dependence (note 6)		
Commitment (note 7)		
Financial risks (note 8)		
	\$ 6,814,854	\$ 12,341,676

See accompanying notes to financial statements.

On behalf of the Board:

Virginia West
Board Chair

Av Maharaj
Chair of Finance, Audit and Risk Committee

Statement of Operations

Year ended March 31, 2021, with comparative information for the period from June 5, 2019 to March 31, 2020

	2021	2020
Revenue:		
Tarion Warranty Corporation funding for operations (note 3)	\$ 7,427,285	\$ 3,032,949
Amortization of deferred capital contributions (note 4)	108,526	9,003
New licensing and renewal fees	918,006	-
Per unit oversight fees	1,061,620	-
Other income	45,077	39,984
	9,560,514	3,081,936
Expenses:		
Human resources	3,045,400	917,242
Consulting services	1,059,498	774,924
Information technology	3,446,838	709,263
Office space	459,712	198,358
Legal services	241,091	191,001
Board expenses	152,288	167,000
Financial services	320,425	95,070
General and administrative	35,187	20,075
Amortization of capital assets	108,526	9,003
	8,868,965	3,081,936
Excess of revenue over expenses	\$ 691,549	\$ -

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended March 31, 2021, with comparative information for the period from June 5, 2019 to March 31, 2020

	2021		2020	
	Investment in tangible and intangible capital assets	Unrestricted	Total	Total
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Excess of revenue over expenses	-	691,549	691,549	-
Purchase of tangible and intangible capital assets	3,053,587	(3,053,587)	-	331,588
Additions to deferred capital contributions	(2,839,948)	2,839,948	-	(331,588)
Balance, end of period	\$ 213,639	\$ 477,910	\$ 691,540	\$ -

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2021, with comparative information for the period from June 5, 2019 to March 31, 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 691,549	\$ -
Items not involving cash:		
Amortization of tangible and intangible capital assets	108,526	9,003
Amortization of deferred capital contributions	(108,526)	(9,003)
Change in non-cash operating working capital:		
Accounts receivable	(396,846)	(39,958)
Prepaid expenses	(160,171)	(138,515)
Accounts payable and accrued liabilities	67,440	844,080
Deferred revenue	(9,517,233)	11,175,011
	(9,315,261)	11,840,618
Financing activities:		
Additions to deferred capital contributions	2,839,948	331,588
Loan payable	500,000	-
	3,339,948	331,588
Investing activities:		
Purchase of short-term investment	-	(7,000,000)
Proceeds from maturity of short-term investment	7,000,000	-
Purchase of tangible and intangible capital assets	(3,053,587)	(331,588)
	3,946,413	(7,331,588)
Increase (decrease) in cash	(2,028,900)	4,840,618
Cash, beginning of period	4,840,618	-
Cash, end of period	\$ 2,811,718	\$ 4,840,618

See accompanying notes to financial statements.



Notes to Financial Statements

Year ended March 31, 2021

The Home Construction Regulatory Authority (“HCRA”) is a private, not-for-profit corporation without share capital that was designated by the Government of Ontario as a regulatory authority on February 1, 2021. The licensing and compliance role was transferred from Tarion Warranty Corporation (“Tarion”) (predecessor). HCRA is designated under the New Home Construction Licensing Act, 2017 (“NHCLA”) to promote and protect public interest through public education, and carrying out licensing and regulatory oversight of Ontario’s new home builders and vendors.

The funds for HCRA’s start-up, build-out, and post doors open phases were provided by Tarion from its Guarantee Fund. On May 31, 2019, and amended on November 25, 2020, HCRA and Tarion entered into a funding agreement (the “Agreement”) that provides for three stages of funding. Funds received for the start-up and build-out phases are intended for the development of operating systems and establishing business processes through:

- *communications*
- *consulting*
- *financial services*
- *general and administrative*
- *human resources*
- *information technology*
- *legal services*
- *office space*

During the post doors open phase, the deferred revenue funds from the build-out phase will be retained to establish an operating reserve for financial stability. In this final phase of funding, the Agreement provides annual financial support payments from Tarion, comprising grants and loans, for a three-year period commencing February 1, 2021. The loans are predicated on guaranteed minimum levels of completed housing unit enrolments. As described in note 5, economic influences and other impacts will affect the variability of repayments.

1. Significant accounting policies:

a. Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations applied in Part III of the Chartered Professional Accountants of Canada Handbook.

b. Revenue recognition:

The deferral method is applied to recognize revenue when earned in the period a performance obligation has been satisfied.

Tarion Warranty Corporation funding for operations is externally restricted and recognized as revenue under the terms of the Agreement up to the post doors open phase. Funding provided is earned as the performance to establish business processes and development of business systems is met.

Capital contributions for the purchase of capital assets are deferred and amortized into



revenue on a straight-line basis at a rate corresponding with the amortization rate of the related capital assets.

Effective February 1, 2021, at post doors open, revenue is derived from new licensing and renewals of builders and vendors. A fee is charged for related costs incurred for new licensing and renewal efforts required to process requests received. Fees collected on submitted requests are non-refundable and are not contingent on evaluated outcomes. Licensing and renewal revenue is recognized at the time the request has been acknowledged.

A regulatory oversight fee (per unit oversight fee) is charged equal to a flat rate on each new home unit enrolled with Tarion. Revenue is recognized in the period of enrolment.

Investment income is recognized as revenue when earned.

c. Expenses:

Expenses are recorded on an accrual basis in the period where goods were received or purchased services were performed.

d. Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. HCRA has not elected to carry any such investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal period if there are indicators of impairment. If there is an indicator of impairment, HCRA determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount HCRA expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

e. Tangible and intangible capital assets:

Purchased tangible capital assets are recorded at cost and depreciated when placed in service. Repairs and maintenance costs are charged to expenses. Betterments that extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to providing services, the carrying value is written down to its residual value and disposed.

Intangible capital assets under development are capitalized and amortized when substantially completed and placed in service.



Capital assets are amortized over their estimated useful life on a straight-line basis as follows:

Tangible:		
Computer hardware		3 years
Leasehold improvements		Lease term
Office equipment		5 years
Intangible:		
IT infrastructure software		10 years

f. Use of estimates:

The preparation of 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 revenue and expenses during the period. Significant items subject to such estimates and assumptions include the useful life lives of capital assets and certain accrued liabilities. Actual results could differ from those estimates.

2. Tangible and intangible capital assets:

Tangible capital assets comprise the following assets as at March 31:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 143,578	\$ 42,620	\$ 100,958	\$ 45,328
Leasehold improvements	314,072	14,788	299,284	–
Office equipment	156,947	15,695	141,252	–
	\$ 614,597	\$ 73,103	\$ 541,494	\$ 45,328

Expenditures during the year on computer hardware was \$89,247, leasehold improvement \$314,072 and office equipment \$156,947 for a total of \$560,266 on tangible capital assets.

Intangible capital assets comprises IT infrastructure software applications developed or enhanced internally.

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
IT infrastructure software	\$ 2,770,578	\$ 44,426	\$ 2,726,152	\$ 277,257

The IT infrastructure software expenditure during the year was \$2,493,321.



3. Deferred revenue:

Deferred revenue represents Tarion funding received that relates to subsequent periods. The movements in deferred revenue during the period were:

	2021	2020
Balance, beginning of period	\$ 11,175,011	\$ -
Start-up	-	1,377,748
Build-out	-	13,161,800
Post doors open	1,250,000	-
	12,425,011	14,539,548
Less:		
Revenue recognized	7,427,285	3,032,949
Additions to deferred capital contributions (note 4)	2,839,948	331,588
Loan payable (note 5)	500,000	-
	10,767,233	3,364,537
Balance, end of period	\$ 1,657,778	\$ 11,175,011

4. Deferred capital contributions:

Deferred capital contributions represent Tarion funding used primarily in the development of IT infrastructure software, amongst other assets.

	2021	2020
Balance, beginning of period	\$ 322,585	\$ -
Deferred capital contributions	2,839,948	331,588
Less amortization of deferred capital contributions	(108,526)	(9,003)
Balance, end of period	\$ 3,054,007	\$ 3,054,007

5. Loan payable:

Financial support for a build out of an operating reserve is provided under the terms of the Agreement for a three-year period ending January 31, 2024. The first transfer payment was received in December 2020 for \$1,250,000. This comprises a grant component of \$750,000 and a repayable amount of \$500,000. The grant component is unspent as at March 31, 2021 and therefore, deferred and will be recognized as revenue in the first full year of operations. The repayable amount is recorded as a loan payable, due January 31, 2024, and is interest-free.

The repayment amount of the loan is dependent on achieving certain outcomes per the Agreement. The amount due will be calculated as the number of home enrolments in the calendar year 2023 exceeding 60,000 multiplied by \$145 to a maximum of \$500,000 without interest. Any amount not repayable will be recognized as revenue at maturity.



6. Economic dependence:

Tarion provided initial funding in the start-up and build-out phases of HCRA. Ongoing financial support during the three-year period of post doors open up to January 31, 2024 will be provided under the Agreement for the purpose of establishing an operating reserve and guaranteed volume in oversight fees.

The variability in oversight fees is contingent on the number of new home enrolments and is sensitive to general economic factors, market conditions, and the cyclical nature of new homes, as described in note 5. Tarion support provides a guarantee of 56,000 units per annum average for the three years phase of post doors open. Actual volumes lower than the average over the term will result in non-repayment of the loan received from Tarion.

After the three-year period, internally managed operating reserves and fees collected under the authority of the NHCLA is expected for HCRA to operate as a self-funded going concern.

7. Commitment:

On December 13, 2019, HCRA signed a lease agreement with the landlord at 40 Sheppard Avenue West, Suite 400, Toronto, Ontario, M2N 6K9 until September 30, 2028. The commitment includes step-ups of base rent effective October 1, 2023 and October 1, 2025. The future base rentals are as follows:

2022	\$ 114,500
2023	114,500
2024	121,500
2025	129,000
2026	136,000
Thereafter	358,000

A component of the lease agreement includes additional rent charged. These expenses are a proportionate share of the property’s common area maintenance expenses and recharges for services that may be directly used by a tenant in the year incurred. The obligation is not preset to specified amounts as the variability is based on consumption. It is not included as part of the above commitment table.

8. Financial risks:

HCRA does not believe it is exposed to significant interest rate risk or market risk. There is no change to the risk exposure from 2020, except as described in note 8(c).

a. Liquidity risk:

Liquidity risk is the risk that HCRA will be unable to fulfill its obligations on a timely basis or at a reasonable cost. Excess cash not required for short-term operational needs are surplus funds. Available funds are invested in risk-free, highly liquid financial instruments to earn interest income on secured principal balances. Financial instruments, including term deposits, guaranteed investment certificates and money market funds, are selected to manage market volatility and limit financial interest, credit, and cash flow exposure risks.

b. Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. HCRA is exposed to credit risk with respect to the accounts receivable. HCRA assesses, on a continuous basis, accounts receivable, and provides for any amounts that are not collectible in the allowance for doubtful accounts. There are nil amounts provided for (2020 - nil).

c. General economic risk:

The ongoing conditions of COVID-19 pandemic is expected to persist in the near term as a return to an office setting would not be an option until approval is received by public health authorities. There is ongoing compliance with guidelines provided by all three levels of government. The situation is monitored for emerging changes.

Establishing stability for a newly formed organization during this period, priority was made to on-board a technologically proficient workforce, adapt use of available technology, modify business practices and processes, and implement strong communication guidelines. The pandemic impact is expected to require a further evaluation and analysis on lasting implications to the business fundamentals. Market conditions of the new home construction industry, management estimations and assumptions in the business model, and strategic priorities will be assessed.

9. Comparative information

Certain comparative information have been reclassified to conform with the financial statement presentation adopted in the current year.





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Regulatory
Authority**

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