

Financial Statements of

CITYHOUSING HAMILTON

Year ended December 31, 2018

DRAFT

CITYHOUSING HAMILTON

Financial Statements

December 31, 2018, with comparative information for 2017

	Page
Cityhousing Hamilton	
Independent Auditors' Report.....	1
Statement of Financial Position.....	5
Statement of Operations and Accumulated Surplus	6
Statement of Changes in Net Debt.....	7
Statement of Cash Flows	8
Notes to Financial Statements	9-24

DRAFT



KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of CityHousing Hamilton Corporation

Opinion

We have audited the accompanying financial statements of CityHousing Hamilton Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2018, December 31, 2017 and January 1, 2017
- the statement of operations and accumulated surplus for the years ended December 31, 2018 and December 31, 2017
- the statement of changes in net debt for the years ended December 31, 2018 and December 31, 2017
- the statement of cash flows for the years ended December 31, 2018 and December 31, 2017
- 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 CityHousing Hamilton Corporation as at December 31, 2018, December 31, 2017 and January 1, 2017 and its results of operations, its changes in net debt and its cash flows for the years ended December 31, 2018 and December 31, 2017 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 report.

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

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

Emphasis of Matter

We draw attention to Note 11 to the financial statements ("Note 11"), which explains that certain comparative information presented for the year ended December 31, 2017 and at January 1, 2017 has been restated.

Note 11 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

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' Responsibility 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 represents 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.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
DATE

DRAFT

CITYHOUSING HAMILTON

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	December 31, 2018	December 31, 2017 (restated Note 11)	January 1, 2017 (restated Note 11)
Financial assets			
Cash	\$ 11,219,169	\$ 14,722,669	\$ 5,894,084
Accounts receivable (note 3)	4,567,772	4,947,160	4,220,713
Investments (note 2)	12,618,060	5,846,061	5,721,299
	<u>28,405,001</u>	<u>25,515,890</u>	<u>15,836,096</u>
Liabilities			
Accounts payable and accrued liabilities	7,080,834	12,812,574	5,516,306
Accrued mortgage interest	103,904	109,594	113,294
Rent deposits	1,423,303	1,450,796	1,367,583
Post-employment benefits (note 8)	952,033	909,811	900,819
Due to City of Hamilton (note 5)	818,794	934,037	3,029,792
Loans and mortgages (note 6)	53,629,095	59,418,264	65,069,774
Deferred revenue (note 4)	4,626,033	5,061,244	5,496,455
	<u>68,633,996</u>	<u>80,696,320</u>	<u>81,494,023</u>
Net debt	(40,228,995)	(55,180,430)	(65,657,927)
Non-financial assets			
Prepaid expenses	996,613	829,923	785,946
Tangible capital assets (note 12)	141,852,561	135,087,255	130,560,051
	<u>142,849,174</u>	<u>135,917,178</u>	<u>131,345,997</u>
Accumulated surplus (note 9)	\$ 102,620,179	\$ 80,736,748	\$ 65,688,070

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

CITYHOUSING HAMILTON

Statement of Operations and Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018 (note 10)	Actual 2018 (restated, note 11)	Actual 2017 (restated, note 11)
Revenue:			
Residential rental	\$ 36,699,409	\$ 36,728,260	\$ 35,685,756
Commercial rental	1,319,635	1,022,181	993,590
Tenant recoveries	499,032	849,028	904,600
Government subsidies	20,732,137	17,879,068	19,174,479
Amortization of deferred revenue	-	435,211	435,211
Other	454,953	16,249,061	10,037,709
	59,705,166	73,162,809	67,231,345
Expenditures:			
Administration	13,776,837	13,870,833	13,147,527
Bad debts	330,975	437,884	406,233
Insurance	1,001,364	955,601	975,617
Maintenance	12,808,634	12,251,250	11,608,062
Repairs	-	1,539,232	1,554,927
Amortization	6,657,284	6,657,284	6,236,740
Interest on long-term debt	2,267,080	2,267,080	2,657,000
OHC repayment	3,035,164	3,035,164	2,980,618
Municipal property tax	875,376	664,797	710,036
Utilities	11,031,153	9,600,062	11,536,459
	51,783,867	51,279,187	51,813,219
Annual surplus before service manager reconciliation	7,921,299	21,883,622	15,418,126
Service manager reconciliation	-	(191)	(369,448)
Annual surplus	7,921,299	21,883,431	15,048,678
Accumulated surplus, beginning of year	80,737,748	80,736,748	65,688,070
Accumulated surplus, end of year	\$ 88,659,047	\$ 102,620,179	\$ 80,736,748

See accompanying notes to financial statements.

CITYHOUSING HAMILTON

Statement of Changes in Net Debt

Year ended December 31, 2018, with comparative information for 2017

	2018	2017 (restated note 11)
Annual surplus	\$ 21,883,431	\$ 15,048,678
Purchase of tangible capital assets	(14,312,699)	(11,189,138)
Gain on sale of tangible capital assets	(7,246,345)	(4,413,692)
Proceeds on disposal of tangible capital assets	8,136,454	4,838,886
Amortization of tangible capital assets	6,657,284	6,236,740
	15,118,125	10,521,474
Net increase in prepaid expenses	(166,690)	(43,977)
Change in net debt	14,951,435	10,477,497
Net debt, beginning of year	(55,180,430)	(65,657,927)
Net debt, end of year	\$ (40,228,995)	\$ (55,180,430)

See accompanying notes to financial statements.

DRAFT

CITYHOUSING HAMILTON

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017 (restated note 11)
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 21,883,431	\$ 15,048,678
Items not involving cash:		
Amortization	6,657,284	6,236,740
Gain on disposal of tangible capital assets	(7,246,345)	(4,413,692)
Amortization of deferred revenue	(435,211)	(435,211)
Change in non-cash assets and other liabilities:		
Accounts receivable	379,388	(726,447)
Prepaid expenses	(166,690)	(43,977)
Accounts payable and accrued liabilities	(5,731,740)	7,296,268
Rent deposits	(27,493)	83,213
Post-employment benefits	42,222	8,992
Accrued mortgage interest	(5,690)	(3,700)
	15,349,156	23,050,864
Capital activities:		
Purchase of tangible capital assets	(14,312,699)	(11,189,138)
Proceeds on disposal of tangible capital assets	8,136,454	4,838,886
	(6,176,245)	(6,350,252)
Financing activities:		
Due from City of Hamilton	(115,243)	(2,095,755)
Repayment of loans and mortgages	(5,789,169)	(5,651,510)
	(5,904,412)	(7,747,265)
Investing activities:		
Change in investments (net)	(6,771,999)	(124,762)
Net change in cash	(3,503,500)	8,828,585
Cash, beginning of year	14,722,669	5,894,084
Cash, end of year	\$ 11,219,169	\$ 14,722,669

See accompanying notes to financial statements.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

CityHousing Hamilton Corporation (the "Corporation") is incorporated with share capital under the Ontario Business Corporations Act to provide, operate, and construct housing accommodation primarily for persons of low and moderate income. The Corporation's shares are 100% owned by the City of Hamilton (the "City"). The City is also the Service Manager for the Corporation. The Corporation is exempt from tax under the Federal Income Tax Act.

1. Significant account policies:

The financial statements of the Corporation have been prepared in accordance with Canadian public sector accounting standards. Significant accounting policies adopted by the Corporation are as follows:

(a) Basis of accounting:

The Corporation follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the year in which they are earned and measurable. Expenditures are recognized as they are incurred and measurable as a result of a receipt of goods or services and the creation of a legal obligation to pay.

(b) Government transfers:

Government transfers received are from federal and provincial governments and the City of Hamilton. Government transfers paid relate to service manager reconciliation adjustments to the City of Hamilton. Government transfers are recognized as revenue in the financial statements when the transfer is authorized, any eligibility criteria are met and a reasonable estimate of the amount can be made except, when and to the extent that, stipulations by the transferor give rise to an obligation that meet the definition of a liability. Government transfers that meet the definition of a liability are recognized as revenue as the liability is extinguished.

(c) Other income including rental income:

Other income is reported as revenue in the period earned.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed or donated tangible capital assets are recognized as tangible capital assets at their fair value at the date of receipt and as revenue.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

1. Significant account policies (continued):

(d) Non-financial assets (continued):

(ii) Amortization:

Amortization is recorded to reflect the cost, net of anticipated salvage value, associated with the use of the asset in providing services over the estimated useful life of the asset. Amortization expense is calculated on a straight-line basis over the assets' estimated useful lives as follows:

Asset	Number of years
Buildings and structures	20 – 40
Furniture and equipment	5 – 20
Leasehold improvements	20
Land improvements	20
IT equipment	3 – 5

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(e) Post-employment benefits:

The Corporation provides certain employee benefits which will require funding in future periods. These benefits include extended health and dental benefit for early retirees and vested sick leave. The costs of extended health and dental benefits and vested sick leave are actuarially determined using management's best estimate of salary escalation, earned days accumulated for certain employees payable at retirement, health care cost trends, long term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as service payments and health and dental benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains or losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

The costs of multi-employer defined contribution pension plan benefits, such as the Ontario Municipal Employees Retirement System (OMERS) pensions, are the employer's contributions due to the plan in the period. These contributions are recognized in the period in which the contributions are earned.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

1. Significant account policies (continued):

(f) Deferred revenue:

Deferred revenue arising from the receipt of government transfers for the construction and acquisition of housing units are amortized to revenue over the period that the units are operated. Under the terms of the Corporation's government transfer agreements, the Corporation is required to operate the units for 20 years. Accordingly, these government transfers are amortized to revenue over 20 years.

(g) Investments:

Investments consist of short-term and long-term bonds and pooled equity instruments. Investments are carried at cost. Investment income is recognized only to the extent received or receivable. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

(h) Use of estimates:

The preparation of financial statements in accordance with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates include assumptions used in performing actuarial valuations of liability for future benefits. Actual results could differ from those estimates.

2. Investments:

	2018	2017	January 1, 2017
Cost	\$ 12,618,060	\$ 5,846,061	5,721,299
Market value	12,597,773	6,106,950	5,845,420

3. Accounts receivable:

	2018	2017	January 1, 2017
Tenant receivable	\$ 2,272,648	\$ 2,075,273	\$ 1,869,201
Subsidy receivable	1,490,016	1,577,299	1,661,805
Allowance for doubtful accounts	(113,632)	(103,764)	(104,119)
HST receivable	630,518	869,870	626,281
Other	288,222	528,482	167,545
	\$ 4,567,772	\$ 4,947,160	\$ 4,220,713

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

4. Deferred revenue:

Deferred revenue consists of grants received for housing units. The Corporation must operate and maintain the units for a period of 20 years.

	2018	2017	January 1, 2017
557 Queenston St.	\$ 835,095	\$ 954,394	1,073,693
Bridgewater	3,790,938	4,106,860	4,422,762
	<u>\$ 4,623,033</u>	<u>\$ 5,061,244</u>	<u>\$ 5,496,455</u>

Continuity	2018	2017
Balance, beginning of year	\$ 5,061,244	\$ 5,496,455
Add: Grants received	-	-
Less: Amounts recognized in revenue	(435,211)	(435,211)
	<u>\$ 4,623,033</u>	<u>\$ 5,061,244</u>

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

5. Due to the City of Hamilton:

Included in amounts owing to the City of Hamilton is a long-term liability for 211 King William (City Views). The liability bears interest at 4.75% per annum, maturing December 31, 2040 and payable in equal annual installments of principal and interest of \$61,437. The liability is secured under a general security agreement on the property. The balance outstanding at the end of the year is \$818,794 (2017 - \$841,146; 2016 - \$862,471)

(a) Principal charges in each of the next five years are as follows:

2019	\$	93,778
2020		96,122
2021		98,525
2022		100,988
2023		103,513
2024 and thereafter		325,838
	\$	818,794

The remaining amounts owing to the City of Hamilton are non-interest bearing with no fixed repayment terms.

DRAFT

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

6. Loan and mortgage payable:

	2018	2017
Canada Mortgage and Housing Corporation, 0.96% mortgage for 772 Upper Paradise, renewing August 1, 2021, payable in equal monthly instalments of principal and interest of \$12,792	\$ 403,974	\$ 552,830
TD Canada Trust, 4.726% mortgage for 470 Stone Church Road East, renewing January 1, 2018 payable in equal monthly instalments of principal and interest of \$24,445	1,078,222	1,324,272
Canada Mortgage and Housing Corporation, 2.11% mortgage for 75 Wentworth Street North and Ashley/Century, renewing January 1, 2019, payable in equal monthly instalments of principal and interest of \$16,408	1,462,597	1,626,895
Canada Mortgage and Housing Corporation, 1.390% mortgage for 1150 Limeridge Road East, renewing June 1, 2020, payable in equal monthly instalments of principal and interest of \$23,311.	1,631,116	1,886,329
Scotia Mortgage Corporation, 2.195% mortgage for 1781 King Street East, renewing January 1, 2022, payable in equal monthly instalments of principal and interest of \$6,719	596,925	663,716
Scotia Mortgage Corporation, 2.195% mortgage for 67 Ossington Drive, renewing January 1, 2022, payable in equal monthly instalments of principal and interest of \$10,798	959,314	1,066,652
Scotia Mortgage Corporation, 1.865% mortgage for 1081 Rymal Road East, renewing June 1, 2022, payable in equal monthly instalments of principal and interest of \$11,441	1,078,688	1,194,762
Scotia Mortgage Corporation, 5.83% mortgage for 10 Brock Street, renewing May 1, 2024, payable in equal monthly instalments of principal and interest of \$7,225	677,906	724,099
Canada Mortgage and Housing Corporation, 1.85% mortgage for 25 Towercrest Drive, renewing August 1, 2019, payable in equal monthly instalments of principal and interest of \$31,022	3,551,463	3,855,240
Canada Mortgage and Housing Corporation, 1.82% mortgage for 1285 Upper Gage Avenue, renewing September 1, 2019, payable in equal monthly instalments of principal and interest of \$5,967	694,007	752,457

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

6. Loan and mortgage payable (continued):

	2018	2017
Royal Bank of Canada, 2.418% mortgage for 430 Cumberland Avenue, renewing October 1, 2018, payable in equal monthly instalments of principal and interest of \$68,089	7,785,237	8,406,870
Canada Mortgage and Housing Corporation, 1.39% mortgage for 101 Broadway Avenue, renewing June 1, 2020, payable in equal monthly instalments of principal and interest of \$14,194	1,749,093	1,894,092
TD Canada Trust, 2.221% mortgage for 1100 Limeridge Road East, renewing February 1, 2022, payable in equal monthly instalments of principal and interest of \$20,833	2,667,856	2,857,173
Canada Mortgage and Housing Corporation, 1.85% mortgage for 1900 Main Street West, renewing August 1, 2019, payable in equal monthly instalments of principal and interest of \$72,181	6,063,158	6,810,127
Canada Mortgage and Housing Corporation, 0.96% mortgage for 25 Lynden Avenue, renewing August 1, 2021, payable in equal monthly instalments of principal and interest of \$9,271	292,793	400,681
Canada Mortgage and Housing Corporation, 1.01% mortgage for 122 Hatt Street, renewing February 1, 2021, payable in equal monthly instalments of principal and interest of \$15,434	1,251,250	1,422,915
Canada Mortgage and Housing Corporation, 1.14% mortgage for 700 Stonechurch Road West, renewing July 1, 2021, payable in equal monthly instalments of principal and interest of \$12,973	396,135	546,385
TD Canada Trust, 2.559% mortgage for 680 Stonechurch Road West, renewing December 1, 2022, payable in equal monthly instalments of principal and interest of \$18,371	903,586	1,098,349
Canada Mortgage and Housing Corporation, 1.14% mortgage for 7-23 Gurnett Drive, renewing June 1, 2021, payable in equal monthly instalments of principal and interest of \$1,779	123,747	143,564

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

6. Loan and mortgage payable (continued):

	2018	2017
Canada Mortgage and Housing Corporation, 1.71% mortgage for 185-206, 210 Jackson Street East, renewing September 1, 2027, payable in equal monthly instalments of principal and interest of \$36,538	3,515,081	3,878,860
People's Trust Company 4.76% mortgage for 162 King William Street, renewing December 1, 2019, payable in equal monthly instalments of principal and interest of \$10,850	1,461,015	1,520,816
TD Canada Trust, 2.559% mortgage for 580 Limeridge Road East, renewing December 1, 2022, payable in equal monthly instalments of principal and interest of \$19,577	892,552	1,101,871
TD Canada Trust, 2.37% mortgage for 170 East Avenue South, renewing September 1, 2022, payable in equal monthly instalments of principal and interest of \$20,892	1,980,410	2,181,831
Sunlife Financial 3.950% mortgage for 350-360 King Street East, renewing June 1, 2027, payable in equal quarterly instalments of principal and interest of \$250,176	7,201,155	7,901,516
MCAP Financial Corporation 3.260% mortgage for 4 Bridgewater Court, renewing June 1, 2022, payable in equal monthly instalments of principal and interest of \$17,816	3,088,112	3,199,942
TD Canada Trust, 2.559% mortgage for 405 York Boulevard, renewing December 1, 2022, payable in equal monthly instalments of principal and interest of \$19,453	1,297,606	1,495,279
Loan - City of Hamilton, 2.5% for water conservation project due August 31, 2026, payable in annual instalments of principal and interest of \$114,259, secured by a general security Agreement over the assets of the Corporation	826,097	910,741
	\$ 53,629,095	\$ 59,418,264

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

6. Loan and mortgage payable (continued):

Future principal payments required on all long-term debt for the next five years and thereafter are as follows:

2019	\$ 24,893,671
2020	6,543,792
2021	4,379,477
2022	10,733,809
2023	1,424,393
2024 and thereafter	5,653,953
	<hr/>
	\$ 53,629,095

Repayments made in the year are recognized as an expense in the statement of operations. The value of the debentures at the end of the year is \$11,000,201 (2017 - \$14,035,365; 2016 - \$17,015,983).

7. Pension agreements:

The Corporation makes contributions to OMERS, which is a multi-employer plan, on behalf of 236 members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The latest actuarial valuation as at December 31, 2018 reported a funding deficit of \$4.8 billion (2017 - \$5.4 billion). OMERS expects the contributions and policy changes made in response to the deficit to return the plan to a fully funded position by 2025. Contributions were made in the 2018 calendar year at rates ranging from 9.0% to 14.6% depending on the level of earnings. As a result, \$841,435 was contributed to OMERS (2017 - \$826,172) for current service.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

8. Post-employment benefits:

The Corporation provides certain employees benefits which will require funding in future periods. These benefits include sick leave and life insurance and extended health and dental benefits to early retirees.

	2018	2017	January 1, 2017
Retiree benefits	\$ 704,014	\$ 670,849	\$ 629,474
Vested sick leave	248,019	238,962	271,345
Balance, end of year	\$ 952,033	\$ 909,811	\$ 900,819

Information about the Corporation's benefit plans is as follows:

	2018	2017
Accrued benefit obligation:		
Balance, beginning of year	\$ 991,200	\$ 966,874
Current benefit cost	37,841	34,102
Interest	37,175	38,416
Actuarial gain	-	22,893
Benefits paid	(88,416)	(71,085)
Balance, end of year	977,800	991,200
Net Unamortized actuarial loss	(25,767)	(81,389)
Liability for benefits	\$ 952,033	\$ 909,811

a. Liability for sick leave benefit plans

The Corporation provides a sick leave benefit plan for certain employee groups. Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Corporation's employment. An actuarial valuation as at December 31, 2018 has estimated the accrued benefit obligation at \$87,800 (2017 - \$97,200; 2016 - \$271,344). The actuarial gain as at December 31, 2018 of \$160,219 is being amortized over 11.8 to 12.4 years, which is the expected average remaining life expectancy of the members of the employee groups.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

8. Post-employment benefits (continued):

b. Liability for retirement benefits

The Corporation provides certain health, dental and life insurance benefits between the time an employee retires under the Ontario Municipal Employees Retirement System (OMERS) or the normal retirement age and up to the age of 65 years. An actuarial valuation at December 31, 2018 estimated the accrued benefit obligation at \$890,000 (2017 - \$894,000; 2016 - \$1,019,226). The actuarial loss as at December 31, 2018 of \$185,986 is being amortized over 41.3 to 16.0 year, which is the expected average remaining life expectancy of the plan members in various groups.

9. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserve and reserve funds as follows:

	2018	2017	January 1, 2017
Reserves and reserve funds	\$ 15,348,746	\$ 5,977,568	\$ 1,098,612
Unfunded liability for future benefits	-	-	-
Unfunded loans and mortgages	(53,629,095)	(59,418,264)	(65,069,774)
Unfunded post-employment benefit	(952,033)	(909,811)	(900,819)
Tangible capital assets	141,852,561	135,087,255	130,560,051
Balance, end of year	\$ 102,620,179	\$ 80,736,748	\$ 65,688,070

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

10. Budget data:

The budget data presented in these financial statements are based upon the 2018 approved operating and capital budgets approved by the Board of the Corporation. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

Revenues	
Operating budget	\$ 59,705,166
Capital budget	8,390,000
Less: capital	(8,390,000)
Total revenue	59,705,166
Expenses:	
Operating budget	59,705,166
Capital budget	8,390,000
Add:	
OHC repayment	3,035,164
Less:	
Amortization of mortgages (net)	(2,460,934)
Capital expenses	(16,885,529)
Total expenses	51,783,867
Annual surplus	\$ 7,921,299

DRAFT

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

11. Explanation of transition to Public sector accounting standards:

The Housing Services Act ("HAS") was proclaimed into law on January 1, 2012 replacing and repealing the Social Housing and Reform Act ("SHRA"). A control assessment was performed and it was determined that due to the change in legislation, the Corporation is controlled by the City of Hamilton for reporting purposes under Canadian Public Sector Accounting Standards.

As an entity controlled by a local government, the Corporation is required to follow public sector accounting standards. At January 1, 2017, the Corporation has adopted public sector accounting standards. These financial statements are the first financial statements for which the Corporation has applied public sector accounting standards. Related accounting changes have been applied retroactively with restatement of prior period results. Key adjustments on the Corporation's financial statements resulting from adoption of public sector accounting standards ("PSAS") are as follows:

(a) Investments:

Previously, the Corporation recorded its investments at fair value because they were classified as fair value financial instruments. Unrealized gains and losses on investments and interest were previously recorded in the statement of operations. PSAS requires that investments be recorded at cost with interest recognized only to the extent received or receivable. Gains and losses on investments are recorded at the time of sale and thus unrealized gains and losses have been reversed in the statement of operations.

(b) Deferred revenue:

Previously, the Corporation recorded certain funds as deferred contributions as they were related to the construction of certain properties. PSAS requires revenue recognition for government transfers at the point in time when eligibility criteria are met and construction is complete. Additionally, PSAS does not permit the recognition of internally restricted funds as deferred contributions. A portion of funding previously recognized as deferred contributions has been recognized in accumulated surplus as a result of this change. Amortization on remaining deferred contributions have been amended to reflect the criteria set forth in the initial agreement from the transferor.

(c) Provincial debentures:

Certain public housing properties which were originally financed by the province of Ontario through general obligation provincial debentures are currently being repaid by the Corporation, however the Corporation is not legally responsible for the settlement of the debt. Accordingly, the value of the provincial debentures has been removed from the Corporation's financial statements. Under PSAS, the amount of repayment in the year is recognized as an expense in the statement of operations.

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

11. Explanation of transition to Public sector accounting standards (continued):

(d) Tangible capital assets:

Previously, the Corporation only recognized tangible capital assets on land and buildings and certain equipment. Amortization on land and buildings was previously amortized over the life of the related loan and mortgage which financed the construction or acquisition. This is materially different from PSAS which requires capitalization of tangible assets in use for greater than one period. Amortization is required to be provided systematically over the estimated useful life of the related asset.

(e) Post-employment benefit:

Previously, the Corporation did not recognize their share of post-employment benefits for retirees and vested sick leave benefits. PSAS requires the Corporation to recognize post-employment benefits using the projected benefits method pro-rated on service, as determined by actuarial valuation.

January 1, 2017	Impact
Accumulated surplus, as originally reported, beginning of year-	\$ 4,544,417
Adjustments to accumulated surplus:	
Investments	(124,121)
Deferred revenue	13,558,413
Provincial debentures	17,015,983
Tangible capital assets	31,588,839
Post-employment benefits	(900,819)
Miscellaneous	5,358
Total adjustment	61,143,653
Revised accumulated surplus, as restated opening	65,688,070
December 31, 2017	
Annual surplus for the year, as originally reported	\$ 4,709,009
Adjustments to accumulated surplus:	
Investments	(89,059)
Deferred revenue	(347,012)
Provincial debentures	(2,980,618)
Post-employment benefits	(8,992)
Tangible capital assets	13,765,350
Total adjustments	10,339,669
Annual surplus, as restated	\$ 15,048,678

CITYHOUSING HAMILTON

Notes to Financial Statements

Year ended December 31, 2018

12. Tangible capital assets:

(a) Assets under construction:

Assets under construction having a value of \$3,583,941 (2017 - \$2,828,902) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

No contributed tangible capital assets have been received in 2018 or 2017.

(c) Tangible capital assets disclosed at nominal values:

Where an estimate could not be made, the tangible capital asset was recognized at a nominal value. No assets were recognized at nominal amount.

(d) Works of art and historical treasures:

The Corporation does not have any works of art or historical treasures.

(e) Write-down of tangible capital assets:

No capital assets were written down during the year.

DRAFT

CITYHOUSING HAMILTON

Notes to the financial Notes to Financial Statements

Year ended December 31, 2018

12. Tangible Capital Assets (continued)

	Balance Beginning of Year			Cost			Accumulated Amortization			2018 Net Book Value
	\$		\$	\$		\$	\$		\$	
Land	27,442,567	2,400,000	(835,351)	29,007,216	-	-	-	-	29,007,216	
Buildings and structures	326,492,176	2,458,150	(2,427,324)	326,523,002	245,053,816	5,016,442	(2,372,566)	247,697,692	78,825,310	
Furniture and equipment	19,969,894	8,699,510	-	28,669,404	4,138,185	1,212,526	-	5,350,711	23,318,693	
Leasehold improvements	2,704,643	-	-	2,704,643	879,009	135,232	-	1,014,241	1,690,402	
Land improvements	5,098,829	-	-	5,098,829	769,560	251,567	-	1,021,127	4,077,702	
IT equipment	1,659,419	-	-	1,659,419	268,605	41,517	-	310,122	1,349,297	
Work-in-progress	2,828,902	4,345,390	(3,590,351)	3,583,941	-	-	-	-	3,583,941	
December 31, 2018	386,196,430	17,903,050	(6,853,026)	397,246,454	251,109,175	6,657,284	(2,372,566)	255,393,893	141,852,561	
Land	27,856,443	-	(413,876)	27,442,567	-	-	-	-	27,442,567	
Buildings and structures	323,418,081	5,220,857	(2,146,762)	326,492,176	242,255,761	4,933,498	(2,135,443)	245,053,816	81,438,360	
Furniture and equipment	15,406,756	4,563,138	-	19,969,894	3,263,259	874,926	-	4,138,185	15,831,709	
Leasehold improvements	2,704,643	-	-	2,704,643	743,777	135,232	-	879,009	1,825,634	
Land improvements	5,098,829	-	-	5,098,829	517,993	251,567	-	769,560	4,329,269	
IT equipment	1,659,419	-	-	1,659,419	227,088	41,517	-	268,605	1,390,814	
Work-in-progress	1,423,759	4,794,240	(3,389,097)	2,828,902	-	-	-	-	2,828,902	
December 31, 2017	377,567,930	14,578,235	(5,949,735)	386,196,430	247,007,878	6,236,740	(2,135,443)	251,109,175	135,087,255	