

Toronto Community Housing Corporation – 2010 Financial Statements

Date:	January 10, 2012
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

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Disclosure of Financial Results:

The City of Toronto is the sole shareholder of the Toronto Community Housing Corporation (TCHC). Council has approved a Shareholder Direction that requires delivery of audited statements of the corporation to the City as sole shareholder within 120 days of its fiscal year end, December 31.

The 2010 Audited Financial Statements were adopted by the TCHC Board at their meeting of December 13, 2011, and made available on the TCHC web site. The delay in transmitting/reporting the statements to the Shareholder is due in part to the changes to the Executive Team and the Board during the year.

In addition, as an independent business corporation established under the Ontario Business Corporations Act (s 94), TCHC is required to hold an Annual General Meeting no later than 15 months after the last preceding annual meeting. The last annual general meeting of the Corporation was held June 14, 2011.

The consolidated financial statements include the assets, liabilities and results of operations of TCHC, its wholly owned subsidiaries and proportionate interests of its joint ventures.

Financial Results

TCHC's 2010 financial results highlight include:

- an excess of revenue over expenses of \$26.5 M, compared with \$49.9M for the prior year
- an increase of \$187.9M in current assets, and an increase of \$119.4M in housing projects and capital assets
- an issuance of a 30-year \$200.0M debenture, of which \$76.7M was used in long-term financings of social housing projects, with the balance for future housing projects and related programs of TCHC and its affiliates

The table below summarizes financial results for 2010 with comparative figures for 2009:

TCHC				
Summary Consolidated Balance Sheet				
As at December 31				
	2010	2009	Increase/(Decrease)	
	\$M	\$M	\$M	%
Assets				
Current assets	508.3	320.3	187.9	59%
Receivables and investments	90.8	109.7	(18.9)	-17%
Housing projects and capital assets	2,353.5	2,234.1	119.4	5%
	2,952.6	2,664.1	288.4	11%
Liabilities				
Current liabilities	322.7	274.0	48.7	18%
Project financing	1,179.0	1,123.2	55.8	5%
Debenture loans	122.0	25.6	96.4	377%
Other liabilities	616.5	555.4	61.1	11%
	2,240.2	1,978.2	262.0	13%
Surplus & share capital	712.4	685.9	26.5	4%
Total liabilities, surplus and share capital	2,952.6	2,664.1	288.4	11%

A significant increase in assets and related liabilities is largely due to investments in redevelopment projects at Regent Park and Don Mount Court.

Total assets as at December 31, 2010 increased by \$288.4M (or 11%) compared with the prior year, mainly due to:

- increase of \$187.9M in current assets, mainly from the bond proceeds
- increase of \$119.4M in housing projects, other capital assets and leases

Total liabilities as at December 31, 2010 increased by \$262.0M (or 13%) compared with the prior year, mainly due to:

- an increase of \$96.4M in debenture loans, including the \$76.7M from the bond proceeds
- a net increase of \$55.8M in project financing, consisting of Canada Mortgage and Housing Corporation (CMHC) mortgages, long-term bank loans, debenture loans used for long-term financing of social housing projects, and loans payable to the City of Toronto
- an increase of \$61.1M in other liabilities including unspent capital grants of \$58.0M
- an increase of \$48.7M in current liabilities, mostly due to an increase in the current portion of project financing of \$61.9M, partially offset by a \$15.0M reduction in short-term bank loan.

Accumulated surplus and share capital as at December 31, 2010 increased by \$26.5M compared with the prior year, and reflects the excess of revenues over expenses as detailed below.

Total 2010 revenues increased by \$26.7M (or 4%), mainly due to:

TCHC				
Summary Consolidated Statement of Operations				
Year ended December 31				
	2010	2009	Increase/(Decrease)	
	\$M	\$M	\$M	%
Revenue				
Subsidies	306.7	304.4	2.4	1%
Rent	277.7	274.8	2.9	1%
Amortization of deferred capital contributions	37.6	31.2	6.3	20%
Parking, laundry and cable fees	16.9	16.2	0.7	4%
Investment income	11.7	8.1	3.6	45%
Other revenues	30.1	19.3	10.8	56%
Total revenues	680.7	654.0	26.7	4%
Expenses				
Operating and maintenance	263.9	254.0	9.9	4%
Municipal taxes	104.3	107.8	(3.5)	-3%
Depreciation	110.1	98.0	12.1	12%
Interest	74.1	65.7	8.4	13%
Rent supplement program	29.4	28.4	1.0	4%
Administration & other	73.3	66.3	6.9	10%
Total expenses before unrealized losses	655.1	620.3	34.8	6%
Excess of revenue over expenses before unrealized gain/(losses)	25.7	33.8	(8.1)	-24%
Unrealized gain /(losses)	0.8	16.1	(15.3)	-95%
Excess of revenue over expenses for the year	26.5	49.9	(23.4)	-47%

- an increase of \$6.3M in amortization of deferred capital contributions, the current portion of provincial grants received for the purchase of capital assets
- an increase of \$10.8M in other revenues, including \$7.4M in joint venture income
- an increase of \$3.6M in investment income mostly related to higher invested balances
- Total 2010 expenses increased by \$34.8M (or 6%), mainly due to:
 - an increase of \$12.1M in depreciation as a result of increased capital assets
 - an increase of \$8.4M in interest expense resulting from increased project financing, debenture loans and bank loans
 - increases of \$9.9M in operating and maintenance costs and \$5.0M in administration costs; partially offset by
 - a reduction of \$3.5M in municipal taxes.

As a result, the year ended with an excess of revenue over expenses before unrealized gain or losses of \$25.7M, a \$8.1M reduction over the prior year. Unrealized gain on investments and interest rate swap for the year was \$0.8M, a reduction of \$15.3M from

the prior year. The net surplus after unrealized gain for the year was \$26.5M, a reduction of \$23.4M from the prior year. These changes reflect the company's long-term investment in re-development. Excess revenues over expenses are an important source for capital funding, and hence any decline is undesirable.

Subsequent event:

In October 2011, City Council approved a by-law exempting certain properties of the TCHC from municipal and education property taxation effective January 1, 2012. This change is estimated to result in net savings to TCHC of up to \$10.2M annually, representing the provincial education share of taxes that would no longer be payable. There would be no net impact to the City's operating budget as the decrease in municipal tax revenues would be offset by a corresponding reduction in the City's annual subsidy to TCHC.

CONTACT

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SIGNATURE



Cam Weldon
Deputy City Manager and Chief Financial Officer

ATTACHMENT

Appendix A: 2010 TCHC Audited Annual Consolidated Financial Statements and Auditor's Report

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Appendix A

Toronto Community Housing Corporation

Consolidated Financial Statements
December 31, 2010

January 9, 2012

Independent Auditor's Report

To the Directors of
Toronto Community Housing Corporation

We have audited the accompanying consolidated financial statements of Toronto Community Housing Corporation, and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Community Housing Corporation and its subsidiaries as at December 31, 2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matters

The consolidated financial statements of Toronto Community Housing Corporation and its subsidiaries for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 19, 2010.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto Community Housing Corporation

Consolidated Balance Sheet

As at December 31, 2010

(in thousands of dollars)

	2010 \$	2009 \$
Assets		
Current assets		
Cash	186,502	22,822
Investments (note 3)	149,100	77,924
Investments for unspent restricted grants (notes 3 and 13)	22,950	26,436
Accounts receivable (note 4(a))	121,118	124,934
Loans receivable (note 5)	23,705	64,066
Prepaid expenses	4,895	4,157
	<u>508,270</u>	<u>320,339</u>
Loans receivable (note 5)	6,644	6,223
Grants receivable (note 13)	10,954	-
Investments for capital asset replacement reserve (note 3)	25,860	26,647
Investments for internally restricted purposes (note 3)	25,997	33,353
Investments for unspent restricted grants (notes 3 and 13)	-	22,950
Receivable from the City of Toronto (note 4(b))	21,325	20,517
Housing projects (note 6)	1,477,366	1,468,898
Other capital assets (note 7)	865,130	753,850
Guaranteed Equity Housing project (note 8)	9,744	10,010
Prepaid lease	1,301	1,356
	<u>2,952,591</u>	<u>2,664,143</u>

See accompanying notes.

Toronto Community Housing Corporation

Consolidated Balance Sheet ...continued

As at December 31, 2010

(in thousands of dollars)

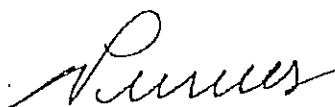
	2010 \$	2009 \$
Liabilities		
Current liabilities		
Bank loan (note 9)	63,860	78,860
Accounts payable and accrued liabilities (notes 4(a) and 8)	140,494	138,284
Tenants' deposits and rents received in advance	11,175	10,572
Deferred revenue	1,849	2,870
Deferred revenue on long-term leases	71	71
Project financing (note 11)	105,270	43,354
	<u>322,719</u>	<u>274,011</u>
Capital asset replacement reserve (note 12)	25,860	26,647
Deferred revenue on long-term leases	1,329	1,505
Employee benefits (note 10)	61,805	58,422
Project financing (note 11)	1,178,965	1,123,195
Interest rate swap liability (note 11(c)(i))	4,193	3,509
Debenture loans (note 11(e))	121,993	25,577
Deferred capital contributions (note 13)	523,304	465,340
	<u>2,240,168</u>	<u>1,978,206</u>
Surplus		
Share capital		
Authorized		
Issued 100 common shares	1	1
Internally restricted surplus (note 15)	25,997	33,353
Unrestricted surplus	686,425	652,583
	<u>712,423</u>	<u>685,937</u>
	<u>2,952,591</u>	<u>2,664,143</u>

Commitments and contingencies (notes 17 and 18)

Approved by the Board of Directors



Director



Director

See accompanying notes.

Toronto Community Housing Corporation

Consolidated Statement of Operations

For the year ended December 31, 2010

(in thousands of dollars)

	2010 \$	2009 \$
Revenue		
Subsidies (note 16)	306,749	304,397
Rent	266,778	265,872
Residential	10,958	8,935
Commercial	37,556	31,240
Amortization of deferred capital contributions (note 13)	16,869	16,210
Parking, laundry and cable fees	11,740	8,097
Investment income	19,410	16,748
External sales	7,800	391
Joint venture income (note 5)	2,881	2,121
Other		
	<u>680,741</u>	<u>654,011</u>
Expenses		
Operating and maintenance	263,922	254,011
Municipal taxes	104,329	107,826
Depreciation	110,114	98,005
Interest (note 11)	74,067	65,713
Administration	70,337	65,339
Rent supplement program (note 16)	29,358	28,355
Plant	1,167	689
Guaranteed Equity Housing Project - deficit (note 8)	383	319
Loss on sale of housing projects - net (note 5)	1,405	-
	<u>655,082</u>	<u>620,257</u>
Excess of revenue over expenses before unrealized losses	<u>25,659</u>	<u>33,754</u>
Unrealized losses		
Change in unrealized gain on investments	1,511	11,845
Change in unrealized gains (losses) on interest rate swap (note 11(c)(i))	(684)	4,263
	<u>827</u>	<u>16,108</u>
Excess of revenue over expenses for the year	<u>26,486</u>	<u>49,862</u>

See accompanying notes.

Toronto Community Housing Corporation

Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2010

(in thousands of dollars)

	2010			
	Share capital \$	Internally restricted surplus \$	Unrestricted surplus \$	Total \$
Net assets - Beginning of year	1	33,353	652,583	685,937
Excess of revenue over expenses for the year	-	-	26,486	26,486
Change in internally restricted surplus (note 15)	-	(7,356)	7,356	-
Net assets - End of year	1	25,997	686,425	712,423
	2009			
	Share capital \$	Internally restricted surplus \$	Unrestricted surplus \$	Total \$
Net assets - Beginning of year	1	56,064	580,010	636,075
Excess of revenue over expenses for the year	-	-	49,862	49,862
Change in internally restricted surplus (note 15)	-	(22,711)	22,711	-
Net assets - End of year	1	33,353	652,583	685,937

See accompanying notes.

Toronto Community Housing Corporation
Consolidated Statement of Cash Flows
For the year ended December 31, 2010

(in thousands of dollars)

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	26,486	49,862
Add (deduct): Items not involving cash		
Amortization of deferred capital contributions	(37,556)	(31,240)
Depreciation	110,114	98,270
Loss on sale of housing projects	1,405	-
Change in unrealized gain on investments	(1,511)	(11,845)
Change in unrealized (gains) losses on interest rate swap	684	(4,263)
Imputed interest on loan	163	(1,083)
Increase in equity investments	(3,486)	(391)
Equity appreciation of Guaranteed Equity Housing	112	8
	<u>96,411</u>	<u>99,318</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	3,816	30,744
Prepaid expenses	(738)	(3,340)
Prepaid lease	56	54
Accounts payable and accrued liabilities	1,919	(3,620)
Tenants' deposits and rents received in advance	603	1,294
Deferred revenue	(1,021)	(614)
Deferred revenue on long-term leases	(176)	(70)
Employee benefit obligations	3,383	322
	<u>104,253</u>	<u>124,088</u>
Investing activities		
Decrease (increase) in investments and loans receivable	39,940	(38,802)
Net decrease (increase) in investment funds	(30,077)	130,714
Acquisition of housing projects	(73,620)	(99,665)
Proceeds on sale of housing projects	12,310	-
Purchase of other capital assets	(173,965)	(189,252)
	<u>(225,412)</u>	<u>(197,005)</u>
Financing activities		
Bank loan	(15,000)	18,000
Increase in accounts payable and accrued liabilities related to the purchase of housing projects and other capital assets	179	19,137
Increase in long-term grants receivable	(10,954)	-
Repayment of project financing	(45,022)	(41,315)
New project financing and debenture loan	258,960	-
Contributions for capital asset replacement reserve	8,148	7,400
Restricted grants for housing projects	88,528	89,678
	<u>284,839</u>	<u>92,900</u>
Increase in cash during the year	163,680	19,983
Cash - Beginning of year	22,822	2,839
Cash - End of year	186,502	22,822
Supplementary information		
Interest paid during the year	74,944	64,581
Accrued capital expenditures	57,042	56,863
Additions by capital lease		542

See accompanying notes.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

1 The company and its mission

Toronto Community Housing Corporation (TCHC) was incorporated under the provisions of the Ontario Business Corporations Act on December 14, 2000 as Metro Toronto Housing Corporation. On October 9, 2001, articles of amendment were filed to effect a name change to Toronto Community Housing Corporation. TCHC is wholly owned by the City of Toronto (the City). In establishing TCHC, the City approved a Shareholder Direction that set guiding principles, high level objectives and expected accountability to the City. The Shareholder Direction establishes TCHC as a non-profit corporation operating at arm's length from the City, under the direction of an independent Board of Directors.

TCHC owns and manages housing for low and moderate income tenants.

TCHC is a non-profit organization and as such is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

Under the Residential Tenancies Act, 2006, rental units located in a non-profit housing project which are developed under a prescribed federal or provincial program, are exempt from residential rent controls.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for non-profit oriented organizations. The significant accounting policies are summarized below:

Basis of consolidation

These consolidated financial statements include the assets, liabilities and results of operations of TCHC and its wholly owned subsidiaries:

- Don Mount Court Development Corporation
- 2001064 Ontario Inc.
- Access Housing Connections Inc.
- Regent Park Development Corporation
- Housing Services Inc.
- Toronto Community Housing Enterprises Inc. (TCHE)
- Railway Lands Development Corporation

These consolidated financial statements also include the proportionate consolidation of TCHC's interest in a joint venture.

All intercompany transactions and balances have been eliminated.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

Revenue recognition

TCHC follows the deferral method of accounting for contributions. Unrestricted contributions, which include subsidies, are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

Rent, parking, laundry, cable fees and other revenue is recorded when services are provided and collection is reasonably assured.

Financial instruments

TCHC's derivative financial instruments and certain investments are recorded at their fair value. Other financial assets and liabilities are recorded at amortized cost, which approximates fair value.

TCHC has chosen to continue to apply The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in place of Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation.

At initial recognition, TCHC classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

	Category	Measurement
Cash	held-for-trading	fair value
Investments	held-for-sale	fair value
Accounts, loans and other receivables	loans and receivables	amortized cost
Accounts payable and accrued liabilities	other liabilities	amortized cost
Tenant deposits and rent received in advance	other liabilities	amortized cost
Bank loan	other liabilities	amortized cost
Project financing	other liabilities	amortized cost
Interest rate swap liability	other liabilities	amortized cost
Debenture loans	other liabilities	amortized cost

Investments and investment income

The value of investments recorded in the consolidated financial statements is determined as follows:

- Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.
- Publicly traded bonds and equities are determined based on the latest bid prices.
- Investments in pooled funds are valued at their reported net asset value per unit.

Transactions are recorded on a trade date basis. Transaction costs are expensed as incurred, except for direct financing costs that are deducted from the carrying value of a financial liability.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

Investment income includes interest, dividends, pooled fund distributions and realized gains and losses.

Investment income related to operations is accounted for in the consolidated statement of operations.

Investment income earned on externally restricted funds is credited directly to the externally restricted funds on the consolidated balance sheet.

Investments in joint ventures

Investments in joint ventures are accounted for using either the equity method or the proportionate consolidation method.

Under the equity method, investments are initially valued at cost and the carrying value is adjusted thereafter to include TCHC's pro rata share of net income (loss) less distributions received.

Under the proportionate consolidation method, TCHC proportionately consolidates its interest in the joint venture by recording its share of the jointly controlled assets and liabilities in its consolidated balance sheet. TCHC proportionately consolidates its share of revenues and expenses of the joint venture in its consolidated statement of operations.

Derivative financial instruments

Derivative contracts are recorded at their fair value as an asset or a liability based on quoted market prices or dealer quotes with changes in fair value recorded in investment income on the consolidated statement of operations.

Financing costs

Direct financing costs are presented as a reduction from the carrying value of the related debt and are amortized using the effective interest rate method over the terms of the debt to which they relate.

Capital assets

Buildings and plant included in housing projects are recorded at cost less accumulated depreciation. Cost includes the original cost of land, buildings and plant, other related costs (including capitalized interest) and net operating expenses during the development period until the asset is substantially complete. The costs of major improvements-necessary to renovate and refurbish buildings-are also included in housing project costs. Depreciation is calculated using the straight-line method and is based on the estimated useful lives of the buildings and plant up to a maximum of 50 years.

When a capital asset no longer has any long-term service potential to TCHC, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any write-downs are not reversed.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

Other capital assets are recorded at cost with depreciation calculated using the straight-line method, based on the estimated useful lives of the assets, as follows:

Improvements to land and buildings	4 to 25 years
Furniture and equipment	4 to 15 years
Leasehold improvements	over the term of the lease

Deferred capital contributions

Capital contributions that are externally restricted for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis, and over the same periods, as the related capital assets.

Employee related costs

TCHC has adopted the following policies with respect to employee benefit plans:

- TCHC's contributions to a multi-employer, defined benefit pension plan are expensed as contributions are due;
- the costs of termination benefits and compensated absences are recognized when an event that obligates TCHC occurs; costs include projected future income payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees, salary escalation, expected health-care costs and plan investment performance. Actuarial gains and losses are recognized as follows:
 - for the supplementary employee retirement plan (SERP), the balance of the actuarial gains and losses in excess of 10% of the SERP liability are amortized over the average future working lifetime of the plan participants; and
 - for the other employee benefits plan as incurred.
- employee future benefit liabilities are discounted using current interest rates on long-term bonds;
- past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment, which is between seven and eight years; and
- the costs of workplace safety and insurance obligations are actuarially determined and expensed. Actuarial gains and losses are recognized as incurred.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

Foreign currency translation

Revenue items denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets, which are denominated in foreign currencies, are translated into Canadian dollars at year-end exchange rates. Gains or losses resulting from foreign currency transactions are included in the consolidated statement of operations.

Use of estimates

The preparation of these consolidated 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include determining the amounts for future employee benefits, useful lives for depreciation and amortization and the allowance for uncollectible accounts receivable. Actual results could differ from those estimates.

Future accounting policy changes

The Public Sector Accounting Board (PSAB) issued new accounting standards in December 2010, which set out financial reporting standards that apply to government not-for-profit organizations. The PSAB has incorporated into the Public Sector Accounting (PSA) Handbook the 4400 Series from the CICA Handbook without making substantive changes, amended the Introduction of Accounting Standards that apply only to not-for-profit organizations currently in the PSA Handbook to set out the applicability of standards in the PSA Handbook to government not-for-profit organizations, and amended the Introduction to Public Sector Accounting Standards to direct government not-for-profit organizations to apply the standards for not-for-profit organizations in the PSA Handbook for fiscal periods beginning on or after January 1, 2012 with retroactive application with restatement of prior periods. Government not-for-profit organizations currently use the standards developed by the Accounting Standards Board that are used by private sector not-for-profit organizations and will continue to apply the 4400 Series of standards using the PSA Handbook. Management continues to analyze the impact of these new standards on the company.

3 Investments

Investments consist of the following:

	2010	2009
	\$	\$
Fixed income securities	175,359	163,814
Money Market Fund	43,949	2,117
Term deposits	-	20,000
Equity investments (note 5)	4,599	1,379
	<hr/>	<hr/>
	223,907	187,310

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

	2010 \$	2009 \$
Less: Investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve (note 12)	(25,860)	(26,647)
Less: Investments for internally restricted purposes (note 15)	(25,997)	(33,353)
Less: Investments for unspent restricted grants (note 13)	(22,950)	(49,386)
	149,100	77,924

4 Account balances with City of Toronto

a) TCHC enters into transactions with the City in the normal course of business and includes payments for various services and supplies. Included in accounts receivable is \$76,320 (2009 - \$99,318) receivable from the City and included in accounts payable and accrued liabilities is \$9,531 (2009 - \$10,797) payable to the City as a result of these transactions.

b) The City has agreed to fund certain employee benefit costs relating to the former Toronto Housing Corporation (THC) as the former company previously contributed to the City's Sick Pay Reserve Fund and Payroll Benefits Plan Reserve Fund. TCHC has recorded a receivable in connection with the expected recoveries of these employee benefit costs from the City.

Included in long-term receivable from the City is \$4,269 (2009 - \$3,461) for sick leave benefits (note 10(f)) and \$17,056 (2009 - \$17,056) for other employment and post-employment benefits (note 10(h)).

c) The City provided \$306,749 in subsidies to TCHC during the year (note 16). Expenditures incurred with the City include \$2,224 (2009 - \$1,926) for construction services, \$30,000 (2009 - \$30,116) for water and waste, \$104,329 (2009 - \$107,826) for taxes and \$2,186 (2009 - \$2,284) for interest charges.

5 Equity investments and loans receivable

	Equity investments (note 3)		Loans	
	2010 \$	2009 \$	2010 \$	2009 \$
Equity in joint venture - Dundas and Parliament (note 5(a)(i))	3,072	205	26,366	59,554
Equity (deficiency) in joint venture - Parliament and Gerard (note 5(a)(i))	(21)	-	3,983	-
Loan receivable from developer - Don Mount Court (note 5(c))	-	-	-	10,735
Other investments	1,548	1,174	-	-
	4,599	1,379	30,349	70,289

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- a) i) TCHC's wholly owned subsidiary, Regent Park Development Corporation (RPDC), has entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. RPDC and the developer have equal interests in the co-tenancy of the development, which operates through a nominee corporation, Dundas and Parliament Development Corporation (DPDC). TCHC accounts for this joint venture using the equity method.

The following is TCHC's 50% share of the components of the financial statements of DPDC:

	2010 \$	2009 \$
Total assets	21,909	36,779
Liabilities	18,836	36,574
Co-tenants' equity		
Contributed surplus	293	293
Surplus (deficit)	2,780	(88)
	21,909	36,779
Housing unit sales	41,386	5,457
Cost of sales	(31,615)	(4,258)
Expenses	(2,460)	(1,053)
Profit for the year	7,311	146
Deficit - Beginning of year	(88)	(234)
Drawings	(4,443)	-
Surplus (deficit) - End of year	2,780	(88)
Cash provided by (used in) operating activities	8,112	(802)
Cash provided by (used in) financing activities	(20,814)	(17,697)
Cash provided by (used in) investing activities	13,186	(16,222)

TCHC has entered into a loan agreement with DPDC to finance the construction of residential condominium buildings. The construction loans are repayable upon sales closing of condominium units and are guaranteed by the co-tenancy partners as well as other affiliated companies. Amounts are advanced under five separate non-revolving term facilities and the availability of each facility will not be extended beyond the third anniversary of the initial drawdown for each facility unless the one-year extension at the option of DPDC is consented to by TCHC. Advances earn interest at the bank's prime rate plus 0.28%. As at December 31, 2010, TCHC has advanced \$26,366 (2009 - \$59,554) to DPDC.

- ii) TCHC's wholly owned subsidiary, Regent Park Development Corporation (RPDC) has entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. RPDC and the developer have equal interest in the co-tenancy of the development, which operates through a nominee corporation, Parliament and Gerrard Development Corporation (PGDC). RPDC accounts for this joint venture using the equity method.

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(in thousands of dollars)

The following is TCHC's combined 50% share of the components of the financial statements of PGDC:

	2010 \$	2009 \$
Total assets	5,830	470
Liabilities	5,851	470
Co-tenants' equity (deficiency)	(21)	-
	5,830	470
Expenses	21	-
Loss for the year	(21)	-
Deficit - Beginning of year	-	-
Deficit - End of year	(21)	-
Cash provided by operating activities	1,749	-
Cash provided by financing activities	3,450	470
Cash provided by (used in) investing activities	(4,685)	(470)

TCHC has entered into a loan- agreement with PGDC to finance the pre-development costs of condominium buildings. The loans are repayable when PGDC obtains construction financing for each condominium building. The loan facility to PGDC is guaranteed by the co-tenancy partners as well as other affiliated companies. Amounts are advanced under three separate non-revolving term facilities and earn interest at the bank's prime rate plus 0.50%. As at December 31, 2010, TCHC has advanced \$3,983 (2009 - \$nil) to PGDC.

- b) TCHC's wholly owned subsidiary, Toronto Community Housing Enterprises Inc. (TCHE), entered into a joint venture with a utility corporation for the construction and operation of the heating and cooling plant located in the Regent Park Development Project. TCHE has a 60% interest in the heating and cooling plant and operations, which operates through a nominee corporation, Regent Park Energy Inc. (RPEI). TCHC accounts for this joint venture using the proportionate consolidation method. There are no significant differences in the accounting policies of RPEI.

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The following is TCHC's 60% share of the components of the financial statements of RPEI:

	2010 \$	2009 \$
Current assets	710	486
Capital assets	17,640	17,027
	<u>18,350</u>	<u>17,513</u>
Current liabilities	687	828
Long-term liabilities	477	-
	<u>1,164</u>	<u>828</u>
Revenue	583	152
Expenses	(1,118)	(689)
Depreciation	(532)	(252)
Net loss for the year	<u>(1,067)</u>	<u>(789)</u>
Cash used in operating activities	(893)	(273)
Cash provided by financing activities	2,180	2,180
Cash used in investing activities	(1,157)	(2,839)

- c) TCHC's wholly owned subsidiary, Don Mount Court Development Corporation (DMCDC), has entered into an agreement with a developer for the construction of certain properties in Don Mount Court.
- i) TCHC entered into a loan agreement with the developer to advance funds totalling \$11,618 for the interim financing of the development. Amounts advanced were due at the earliest of substantial completion or two years after the first advance. Advances earned interest at the bank's prime rate plus 0.50%. In 2010, the loan was paid in full. As at December 31, 2010, TCHC has advanced \$nil (2009 - \$10,736) to the developer.
- ii) In 2009, TCHC entered into a sale agreement with the developer for a portion of the site land in the development in exchange for a reduced construction cost of the development. The development is in two phases. The completed Phase 1 contains 172 residential housing units. Phase 2, which is in progress, contains 60 residential housing units. The sale of land is reflected in the consolidated financial statements as follows:

Toronto Community Housing Corporation

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(in thousands of dollars)

	2010
	\$
Fair value of land sold applied to building costs	
Building Phase 1	7,474
Work-in-process - Building Phase 2	2,626
	<u>10,100</u>
Less: Cost of land and preparation costs	<u>2,637</u>
Gain on sale	<u>7,463</u>

- d) TCHC's wholly owned subsidiary, Railway Lands Development Corporation (RLDC), has entered into a co-tenancy agreement with a developer for the construction of certain properties in the railway lands. RLDC and the developer have equal interests in the co-tenancy of the development, which operates through a nominee corporation, Library District Inc. TCHC accounts for this joint venture using the equity method.

TCHC will sell a 50% interest in the land to the developer for an agreed amount of \$4,160. As at December 31, 2010, the land has not been transferred and no funds have been advanced to the co-tenancy.

6 Housing projects

Housing projects consist of the following:

	2010					
	Net January 1 \$	Additions (disposals) \$	Completed during the year \$	Cost \$	Accumulated depreciation \$	Net December 31 \$
Land	366,917	(2,554)	3,832	368,195	-	368,195
Buildings	1,472,304	(17,253)	75,275	1,530,326	(545,041)	985,285
Plant	16,026	-	2,379	18,405	(797)	17,608
Housing projects under construction	112,187	75,577	(81,486)	106,278	-	106,278
	<u>1,967,434</u>	<u>55,770</u>	<u>-</u>	<u>2,023,204</u>	<u>(545,838)</u>	<u>1,477,366</u>
	2009					
	Net January 1 \$	Additions (disposals) \$	Completed during the year \$	Cost \$	Accumulated depreciation \$	Net December 31 \$
Land	347,864	-	19,053	366,917	-	366,917
Buildings	1,346,693	(2,158)	127,769	1,472,304	(498,284)	974,020
Plant	-	-	16,026	16,026	(252)	15,774
Housing projects under construction	175,014	100,021	(162,848)	112,187	-	112,187
	<u>1,869,571</u>	<u>97,863</u>	<u>-</u>	<u>1,967,434</u>	<u>(498,536)</u>	<u>1,468,898</u>

Toronto Community Housing Corporation

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Housing projects include capitalized interest of \$8,150 (2009 - \$5,537).

7 Other capital assets

Other capital assets consist of the following:

	2010				
	Net January 1 \$	Additions (disposals) \$	Cost \$	Accumulated depreciation \$	Net December 31 \$
Improvements to land and buildings	857,954	166,140	1,024,094	(212,178)	811,916
Furniture and equipment	105,956	7,776	113,732	(60,593)	53,139
Leasehold improvements	2,752	49	2,801	(2,726)	75
	966,662	173,965	1,140,627	(275,497)	865,130
	2009				
	Net January 1 \$	Additions (disposals) \$	Cost \$	Accumulated depreciation \$	Net December 31 \$
Improvements to land and buildings	677,867	180,087	857,954	(161,006)	696,948
Furniture and equipment	96,838	9,118	105,956	(49,420)	56,536
Leasehold improvements	2,704	48	2,752	(2,386)	366
	777,409	189,253	966,662	(212,812)	753,850

Other capital assets include assets under capital leases with a carrying value of \$15,078 (2009 - \$16,001) (note 11(c)(iii)).

8 Guaranteed Equity Housing Project

TCHC owns a building that has Guaranteed Equity Units, each consisting of rights that include membership in the Equity Corporation and the right to occupy a particular suite in the building, which were sold to seniors under terms guaranteeing the repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the consumer price index. This asset is reflected in the consolidated balance sheet as a housing project cost; therefore, when a unit is repurchased, no gain or loss is recorded. This obligation is recorded at \$15,339 (2009 - \$15,146) and is included in TCHC's accounts payable and accrued liabilities in the consolidated balance sheet. The fair value of this obligation is not determinable as there are no defined repayment terms.

Net proceeds on the sale of the right to occupy a unit, together with interest earned, will be used to finance the buyback of the Guaranteed Equity Units upon termination of the project in the year 2042.

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(in thousands of dollars)

The Guaranteed Equity Housing Project's assets consist of the following:

	2010		
	Beginning of year \$	Net change during the year \$	End of year \$
Land	1,216	-	1,216
Building	13,058	-	13,058
	14,274	-	14,274
Less: Accumulated depreciation	(4,264)	(266)	(4,530)
	10,010	(266)	9,744

	2009		
	Beginning of year \$	Net change during the year \$	End of year \$
Land	1,216	-	1,216
Building	13,047	-	13,047
Equipment	11	-	11
	14,274	-	14,274
Less: Accumulated depreciation	(3,998)	(266)	(4,264)
	10,276	(266)	10,010

The operating deficit from the Guaranteed Equity Housing Project included in the consolidated statement of operations consists of the following:

	2010	2009
	-\$	\$
Depreciation	266	266
Accretion of repurchase obligation	112	8
Operating, marketing and selling	52	66
Administrative and other	28	44
	458	384
Less: Sundry revenue	(73)	(64)
Less: Amortization of deferred capital contributions	(2)	(1)
Deficit	383	319

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9 Short-term bank facilities

TCHC has a committed revolving credit facility of \$200,000 (2009 - \$200,000) available for short-term advances and letters of credit. Short-term advances are available by way of bankers' acceptance (BA). For 2010, the interest charges are at the bank's BA rate plus 1.10%. As at December 31, 2010, short-term advances of \$63,860 (2009 - \$78,860) have been used and are repayable at maturity on various dates throughout 2011. As at December 31, 2010, there are outstanding letters of credit of \$10,716 (2009 - \$8,579), which reduce the amount available under this facility.

10 Employee benefits

a) Employee benefits liabilities of TCHC

	2010 \$	2009 \$
Workers' Safety and Insurance Board (WSIB) obligations (note 10(e))	12,282	13,326
Sick leave benefits (note 10(f))	11,865	10,427
Severance/termination benefits (note 10(g))	1,568	1,559
Other employment and post-employment benefits (note 10(h))	19,785	19,869
	<hr/>	<hr/>
Supplementary employee retirement plan (SERP) (note 10(i)(i))	45,500	45,181
	16,305	13,241
	<hr/>	<hr/>
	61,805	58,422

Additional information about TCHC's SERP and other benefit plans as at December 31, 2010 is as follows:

	SERP		Other benefits	
	2010 \$	2009 \$	2010 \$	2009 \$
Accrued benefit obligation	23,038	18,837	41,670	40,800
Plan assets	(419)	(531)	-	-
Unamortized actuarial gains	4,313	7,635	-	-
Unamortized past service costs	(10,627)	(12,700)	3,830	4,381
	<hr/>	<hr/>	<hr/>	<hr/>
	16,305	13,241	45,500	45,181

Toronto Community Housing Corporation
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(in thousands of dollars)

b) Continuity of TCHC's accrued benefit liabilities

	SERP		Other benefits	
	2010 \$	2009 \$	2010 \$	2009 \$
Balance - Beginning of year	13,241	11,578	45,181	46,522
Current service cost	613	498	(1,461)	5,041
Interest cost	1,259	1,145	1,186	1,777
Benefits paid	-	-	(968)	(890)
Amortization of past service costs	2,074	2,074	(551)	(551)
Amortization of actuarial gains	(822)	(1,254)	-	-
Actuarial (gain) loss	-	-	2,113	(6,718)
Funding contributions	(60)	(800)	-	-
Balance - End of year	16,305	13,241	45,500	45,181

c) TCHC's employee benefits expense

	SERP		Other benefits	
	2010 \$	2009 \$	2010 \$	2009 \$
Current service cost	613	498	(1,461)	5,041
Interest cost	1,259	1,145	1,186	1,777
Amortization of past service costs	2,074	2,074	(551)	(551)
Amortization of actuarial gains	(822)	(1,254)	-	-
Actuarial (gain) loss	-	-	2,113	(6,718)
	3,124	2,463	1,287	(451)

d) Non-pension benefits payments

During the year, TCHC made non-pension benefits payments directly to employees and retirees of approximately \$3,771 (2009--\$3,479).

e) Workplace safety and insurance obligations

TCHC and its subsidiaries, except Housing Services Inc., are Schedule 2 employers under the Workplace Safety and Insurance Act and as such assume responsibility for financing their workplace safety insurance costs. The accrued obligation represents the actuarial valuation of claims to the insured based on the history of claims with TCHC employees. Housing Services Inc., which is a Schedule 1 employer, pays insurance premiums as calculated by the WSIB. The WSIB is responsible for the costs of employees under this plan.

The actuarial extrapolation of WSIB's Benefit Plan liabilities as at December 31, 2010 is based on an extrapolation of WSIB's statement of liabilities as at December 31, 2009.

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(in thousands of dollars)

f) Liability for sick leave benefits

Under the sick leave benefit plan, unused sick leave can accumulate and bargaining unit employees may become entitled to a cash payment when they leave TCHC's employment. The liability for the accumulated sick leave represents the extent to which the bargaining unit employees have vested and the amounts could be taken in cash by them on termination.

In order to provide for this past service liability, the former THC participated in a reserve fund established by the City. Since the former THC participated in the City's reserve fund, a receivable from the City has been set up equal to the liability of the former THC of \$4,678 (2009 - \$3,870), less \$409 (2009 - \$409), which is an amount funded internally by TCHC (note 4(b)).

Due to the complexities in valuing the liabilities of the sick leave benefits, actuarial valuations are conducted on a periodic basis. The accrued benefit obligation as at December 31, 2010 is based on the most recent actuarial valuation that was completed as at December 31, 2009.

g) Severance/termination benefits

Under the severance/termination plan, weeks accumulate for each year of service and employees may become entitled to a cash payment when they leave TCHC's employment. The liability for these accumulated weeks represents the extent to which the employees have vested and the amounts could be taken in cash by them on termination.

h) Other employment and post-employment benefits

TCHC provides health, dental, life insurance and long-term disability benefits to certain employees. The same health, dental and life insurance benefits are provided to some retirees until age 65 and reduced benefits provided thereafter.

The former TCHC participated in a payroll benefits plan reserve fund established by the City to provide for future benefits to all City employees and retirees. An amount of \$17,056 (2009 - \$17,056), representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City (note 4(b)).

i) Other plans

i) SERP

In 2006, TCHC established a SERP for current eligible employees whose pension benefits were frozen in the Public Service Pension Plan or the Ontario Public Service Employees' Union Pension Plan as of January 1, 2001. A current eligible employee is one who was an active employee on February 15, 2006 (the date this benefit was approved by the Board of Directors) and had transferred employment on January 1, 2001 from the Metro Toronto Housing Authority to TCHC and became a member of the Ontario Municipal Employees' Retirement Fund (OMERS). This plan provides a supplementary benefit so that the total pension benefit on retirement would have been the same as that received had the employee been able to transfer their pensions to OMERS.

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Due to the complexities in valuing the liabilities of the SERP, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2008 and the accrued benefit obligation as at December 31, 2010 is based on an extrapolation of the December 31, 2008 valuation.

ii) **OMERS**

Employees are members of OMERS, a multi-employer pension plan. The plan is a defined benefit plan and specifies the amount of the retirement benefits to be received by the employees based on length of service and the highest five years' average earnings. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are the joint responsibility of all Ontario municipalities and their employees. TCHC does not recognize any share of OMERS' pension surplus or deficit.

Depending on the individual's normal retirement age and pensionable earnings, 2010 contribution rates were 6.4% to 9.7% (2009 - 6.3% to 9.5%). Total employer contributions for the year ended December 31, 2010 amounted to \$6,039 (2009 - \$5,593) and are included in administration expenses on the consolidated statement of operations.

j) **Actuarial assumptions**

The significant actuarial assumptions adopted in measuring TCHC's accrued benefit obligations and the benefit costs for the SERP and other employment and post-employment benefits are as follows:

	SERP		Other benefits	
	2010 %	2009 %	2010 %	2009 %
Discount rates for benefit obligation	-	-	5.25	6.25
Post-retirement and sick leave	-	-	4.50	5.00
Post-employment	5.75	6.50	-	-
Pension	-	-	-	-
Discount rates for benefit costs	-	-	6.25	7.50
Post-retirement and sick leave	-	-	5.00	7.00
Post-employment	-	-	-	-
Pension	6.50	7.50	-	-
Rate of compensation increase	3.00	3.00	3.00	3.00

For measurement purposes, a 7.57% annual rate of increase in the per capita cost of covered health-care benefits was assumed. The rate is assumed to decrease gradually to 4.5% by 2024 and remain at that level thereafter.

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11 Project financing and debenture loans

Project financing consists of the following:

	2010 \$	2009 \$
Mortgages payable to Canada Mortgage and Housing Corporation (CMHC) (note 11(a))	412,051	431,388
Other (note 11(b))	391,585	409,239
Long-term loans payable to others (note 11(c))	129,524	73,703
Debenture loans (note 11(e))	322,799	221,254
Long-term loans payable to the City of Toronto (note 11(d))	28,276	30,965
	<hr/>	<hr/>
	1,284,235	1,166,549
Less: Current portion	(105,270)	(43,354)
	<hr/>	<hr/>
	1,178,965	1,123,195

Interest incurred on long-term debt was \$72,532 (2009 - \$64,514) and has been recorded in interest expense on the consolidated statement of operations. All mortgages (notes 11(a) and (b)) and the capital leasing facility (note 11(c)(iii)) have their underlying assets pledged as security. The remaining loans are unsecured.

The change in project financing is calculated as follows:

	2010 \$	2009 \$
New project financing	61,000	-
Imputed interest on loan	163	-
Debenture proceeds	102,622	58,278
Less: Mortgage payments	(36,992)	(34,885)
Less: Loan payments	(8,030)	(7,564)
Less: Deferred financing costs	(1,077)	(703)
	<hr/>	<hr/>
Net increase in financing	117,686	15,126

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Principal repayments are due as follows:

	Canada Mortgage and Housing Corporation \$	City of Toronto \$	Others \$	Total \$
2011	20,004	332	84,934	105,270
2012	20,927	1,692	25,104	47,723
2013	21,928	1,784	26,360	50,072
2014	22,887	1,888	27,692	52,467
2015	23,900	1,988	27,771	53,659
2016 to 2043	302,405	20,592	652,047	975,044
Deferred financing charges on project financing	-	-	(3,916)	(3,916)
	412,051	28,276	843,908	1,284,235

- a) CMHC mortgages bear interest at rates between 2.65% and 11.0% (2009 - 2.86% and 11.0%). These mortgages mature between 2011 and 2031.
- b) Other mortgages bear interest at rates between 3.02% and 13.27% (2009 - 3.04% and 13.27%). These mortgages mature between 2011 and 2043.
- c) Long-term loans payable to others consist of the following:
 - i) As at December 31, 2010, TCHC has a non-revolving 20-year amortizing construction bridge term loan of \$42,928 (2009 - \$45,424) to assist with the financing of the construction for Phase 1 of its Building Renewal Program, which was completed in 2009.

The loan is obtained through one-year BAs and interest is payable at the BA rate plus 20 basis points (the stamping fee). TCHC entered into a 12-year interest rate swap facility, which effectively fixed the interest rate at 4.55% (2009 - 4.55%) plus the applicable BA stamping fee. The facility will continue to be available to fix the interest rate exposure on renewals of the loan for the balance of the committed 12-year term, which matures February 15, 2018.

At December 31, 2010, the notional value of the interest rate swap was \$42,928 (2009 - \$45,424) and the fair value was an unrealized loss of approximately \$4,193 (2009 - \$3,509), which is recorded as a liability on the consolidated balance sheet.

- ii) In September 2006, TCHC entered into a seven-year unsecured term loan for \$14,650 to refinance certain of its buildings and renovations. Interest is payable at 4.58% (2009 - 4.58%). The unamortized balance will be due at maturity in 2013. As at December 31, 2010, the term loan balance was \$13,205 (2009 - \$13,549).
- iii) TCHC had a capital leasing facility of \$20,000 with interest payable at 5.11% to finance a portion of its appliance replacement program. In August 2007, purchases made under this facility were sold and

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leased back to TCHC. Leasing payments started in August 2007 at \$253 per month for a period of 96 months. As at December 31, 2010, \$12,390 (2009 - \$14,730) was outstanding on this facility.

- iv) In 2010, TCHC obtained a \$61,000 non-revolving three-year term loan to finance the construction of a condominium in Regent Park Phase 2. Interest is based on the bank's prime rate or BA rate plus 1.25% with terms up to a maximum of 360 days. As at December 31, 2010, the facility has been fully drawn down by way of BA advances at \$61,000 (2009 - \$nil) to mature on June 6, 2011 subject to renewal for another six months.
- d) Loans from the City bear interest at rates between 2.75% and 11.0% (2009 - 2.75% and 11.0%). These loans mature between 2016 and 2031 (2009 - 2016 and 2031).
- e) TCHC has entered into a Credit Agreement, dated May 11 2007, with TCHC Issuer Trust, which in turn entered into an agreement with various agents to issue bonds. TCHC Issuer Trust has advanced all proceeds of the bond offerings to TCHC as a loan having the same interest rate and term as the debenture pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust.

Details of the bond issues are as follows:

- i) In 2007, \$250,000 4.877% Debentures Series A bonds due May 11, 2037.

TCHC has used \$250,000 (2009 - \$224,093) of this loan for long-term financings of social housing projects. TCHC incurred costs of \$3,297, which reduced the carrying value of the related debt and are amortized over the same term as the debt. In 2010, amortization of \$57 (2009 - \$53) was recorded.

- ii) In 2010, \$200,000, 5.395% Debentures Series B bonds due February 22, 2040.

TCHC has used \$76,715 (2009 - \$nil) of this loan for long-term financings of social housing projects. The balance of the loan of \$123,285 (2009 - \$nil) will be used for future long-term financing of social housing projects and related programs of TCHC and its affiliates. TCHC incurred costs of \$2,121, which reduced the carrying value of the related debt and are amortized over the same term as the debt. In 2010, amortization of \$25 (2009 - \$nil) was recorded.

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Debenture loans consist of the following:

	2010		
	Project financing \$	Debenture loan \$	Total \$
Proceeds from issuance of debentures	326,715	123,285	450,000
Deferred financing costs	(3,916)	(1,292)	(5,208)
	<u>322,799</u>	<u>121,993</u>	<u>444,792</u>
	2009		
	Project financing \$	Debenture loan \$	Total \$
Proceeds from issuance of debentures	224,093	25,907	250,000
Deferred financing costs	(2,839)	(330)	(3,169)
	<u>221,254</u>	<u>25,577</u>	<u>246,831</u>

12 Capital asset replacement reserve

Under the terms of an agreement with the Ontario Ministry of Municipal Affairs and Housing, TCHC is required to maintain a reserve for major repairs and maintenance and contribute annually to the reserve from its operations. The income earned on the investment of the reserve funds is also added to the reserve.

The change in the capital asset replacement reserve is due to the following:

	2010 \$	2009 \$
Balance - Beginning of year	26,647	22,351
Contributions during the year	8,148	7,400
Investment income	1,790	3,491
Less: Transfer to deferred capital contributions for approved expenditures (note 13)	(10,725)	(6,595)
Balance - End of year	<u>25,860</u>	<u>26,647</u>

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(in thousands of dollars)

13 Deferred capital contributions

Deferred capital contributions represent the unamortized amount of restricted contributions received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations on the same basis as the asset to which it relates is depreciated.

The changes in the deferred capital contributions balance are as follows:

	2010	2009
	\$	\$
Balance - Beginning of year	465,340	346,007
Restricted grants for housing projects	84,795	143,978
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditure (note 12)	10,725	6,595
Less: Amortization of deferred capital contributions	<u>(37,556)</u>	<u>(31,240)</u>
Balance - End of year (note 19(a))	<u>523,304</u>	<u>465,340</u>

Provincial affordability housing grants for the development of three projects are paid monthly and have been set up as a grant receivable.

Deferred capital contributions include unspent funds of \$22,950 (2009 - \$49,386), which is shown in the consolidated balance sheet as investments for unspent restricted grants.

14 Toronto affordable housing fund

The Toronto Affordable Housing Fund (TAHF) was incorporated without share capital, under the provisions of the Corporations Act (Ontario) on March 18, 2009, to establish and operate a housing fund for the purpose of:

- a) providing financial support to qualified individuals so that they may purchase eligible homes; and
- b) providing access to and promoting the availability of long-term affordable ownership housing and such other complimentary purposes not consistent with these objects.

TAHF shall be carried on without the purpose of gain for its members and any profits or other accretions to TAHF shall be used in promoting its objects.

TAHF is not consolidated with TCHC; however, TCHC and TAHF share the same directors and therefore, TCHC controls the strategic operating, investing and financing policies of TAHF.

Toronto Community Housing Corporation

Notes to Consolidated Financial Statements

December 31, 2010

(in thousands of dollars)

The following is TAHC's financial position as at December 31:

	2010 \$	2009 \$
Opening bank balance	4,553	-
Grants received	383	4,553
Interest earned	6	-
Appreciation on repayments	24	-
Net loans provided	(3,897)	-
Closing bank balance	<u>1,069</u>	<u>4,553</u>

15 Internally restricted surplus

Internally restricted surplus funds are held for specific purposes as specified by TCHC's Board of Directors. These funds, and the investment income earned thereon, are not available for general operating expenses of TCHC.

i) Don Mount Court Reserve Fund

The Don Mount Court Reserve Fund was established for the purpose of providing the necessary operating funds to the DMDC for the Don Mount Court regeneration project.

ii) Regent Park Development Reserve Fund

The Regent Park Development Reserve Fund was established for the purpose of providing the necessary funds for the redevelopment of Regent Park.

Internally restricted surplus consists of the following:

	2010	2009
	<u>Don Mount Court Reserve Fund</u>	<u>Regent Park Development Reserve Fund</u>
	\$	\$
Transfers from operations for the year consist of:		
Capital expenditures	(3,824)	(16,816)
Operating surplus transfer	-	12,000
Investment income earned	-	1,396
Fair value adjustments for investments held	(310)	198
Net transfers for the year	(4,134)	(3,222)
Balance - Beginning of year	4,134	29,219
Balance - End of year	<u>-</u>	<u>25,997</u>
	<u>Total</u>	<u>Total</u>
	\$	\$
	(20,640)	(38,781)
	12,000	12,000
	1,396	1,567
	(112)	2,503
	33,353	56,064
	25,997	33,353

Toronto Community Housing Corporation

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(in thousands of dollars)

16 Program administration

TCHC administers various programs on behalf of the City. Subsidies received from the City offsetting these costs have been recorded in subsidies revenue. TCHC incurred costs of \$12,031 (2009 - \$11,443) for the commercial rent supplement program, \$11,831 (2009 - \$11,727) for the strong communities program, \$447 (2009 - \$410) for the housing allowance pilot program, \$4,239 (2009 - \$4,733) for the housing allowance roll-out program, \$10 (2009 - \$nil) for the short-term rent support program and \$800 (2009 - \$42) for the mental health commission program. These amounts, totalling \$29,358 (2009 - \$28,355), are included in the rent supplement programs expense. TCHC also received rent supplements of \$23,671 (2009 - \$20,076) for the community sponsored program, which have been recorded as subsidies revenue.

Housing program subsidies received from the City are based on mortgage principal and interest and municipal tax payments for housing projects funded under the TCHC Operating Agreement with the City and have been recorded in subsidies revenue. For these projects, the municipal tax expense for 2010 totalled \$91,593 (2009 - \$95,278) and the mortgage principal and interest payments for 2010 totalled \$78,556 (2009 - \$79,737).

17 Commitments

a) TCHC is obligated under the terms of operating leases to the following annual payments:

	\$
2011	3,629
2012	2,939
2013	1,275
2014	858
2015	867
Thereafter	<u>14,201</u>
	<u>23,769</u>

b) On TCHC's behalf, the City and Social Housing Services Corporation enter into contracts to purchase fixed quantities of natural gas at fixed prices for a percentage of its anticipated future usage. These contracts are entered into and continue to be held for the purpose of receipt of natural gas in accordance with TCHC's expected usage requirements.

18 Contingencies

a) TCHC will be liable to repay certain CMHC and City loans, not yet formally forgiven, amounting to \$4,364 and \$7,439 (2009 - \$4,726 and \$7,163), respectively, which are included in deferred capital contributions (note 13), should it fail to adhere to the terms and conditions under which the loans were originally granted. Management believes TCHC will adhere to the terms and conditions.

b) The nature of TCHC's activities is such that there is often litigation pending or in progress. With respect to claims as at December 31, 2010, it is management's position that TCHC has valid defences and appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material impact on TCHC's consolidated financial position.

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Notes to Consolidated Financial Statements

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19 Financial instruments

a) Fair value

The carrying values of TCHC's financial instruments approximates their fair values unless otherwise noted.

b) Risk management

TCHC's investment and operating activities expose it to a range of financial risk. These risks include credit risk, market risk and interest rate risk, which are described as follows:

- TCHC is subject to market risk, foreign currency risk and interest rate price risk with respect to its investment portfolio. To manage these risks, TCHC has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

- TCHC is subject to interest rate cash flow risk with respect to its floating rate debt. TCHC has addressed this risk by entering into an interest rate swap agreement related to part of its debt that fixes the interest rate over the term of the debt. As for the debenture loan, the fixed rate nature of the loan reduces the risk of interest rate fluctuations over the term of the outstanding debt.

- TCHC is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. TCHC addresses this commodity price risk exposure by entering into various energy related purchase and sales contracts that fix a portion of the wholesale price over the term of the contract.

- Accounts and loans, which are receivable, result in exposure to credit risk since there is a risk of counterparty default. TCHC provides for an allowance for doubtful accounts to absorb potential credit losses.

20 Capital management

TCHC views capital as the sum of project financing, debenture loans, internally restricted surplus and unrestricted surplus. TCHC's main capital managing objectives are to structure repayment obligations in line with the expected life of housing projects and to maintain TCHC's credit rating to ensure it has sufficient capital markets to fund TCHC's new and renewal building programs at favourable interest rates. TCHC monitors its capital on the basis of the adequacy of its cash resources to meet the objectives of its business plan for proposed new projects and building renewal programs. Management believes these objectives have been met.

21 Comparative figures

Certain prior year comparative figures have been reclassified to conform to the current year's consolidated financial statement presentation.