

Consolidated Financial Statements

Toronto Community Housing Corporation

December 31, 2005

June 6, 2006 11:18 AM

DRAFT FOR DISCUSSION

AUDITORS' REPORT

To the Directors of
Toronto Community Housing Corporation

We have audited the consolidated balance sheet of **Toronto Community Housing Corporation** as at December 31, 2005 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
April 7, 2006.

Chartered Accountants

Toronto Community Housing Corporation

CONSOLIDATED BALANCE SHEET
[000's]

As at December 31

	2005 \$	2004 \$
ASSETS		
Current		
Cash	3,469	546
Investments <i>[note 3]</i>	57,282	72,492
Accounts receivable <i>[note 4[b]]</i>	81,972	64,487
Prepaid expenses	3,567	3,455
Total current assets	146,290	140,980
Investments for capital asset replacement reserve <i>[note 3]</i>	56,334	61,697
Investments for internally restricted purposes <i>[note 3]</i>	105,206	81,239
Receivable from the City of Toronto <i>[note 4[a]]</i>	20,517	20,517
Housing projects <i>[note 5]</i>	1,362,475	1,382,537
Other capital assets <i>[note 6]</i>	313,585	258,375
Guaranteed Equity Housing Project <i>[note 7]</i>	11,077	11,344
Prepaid lease	1,580	1,634
	2,017,064	1,958,323
LIABILITIES AND NET ASSETS AND SHARE CAPITAL		
Current		
Accounts payable and accrued liabilities <i>[notes 4[b] and 7]</i>	103,040	95,718
Tenants' deposits and rents received in advance	7,906	8,170
Deferred revenue	1,800	—
Current portion of deferred revenue on long-term leases	71	71
Current portion of project financing <i>[note 10]</i>	29,689	27,284
Total current liabilities	142,506	131,243
Capital asset replacement reserve <i>[note 11]</i>	56,334	61,697
Deferred revenue on long-term leases	2,047	2,509
Employee benefits obligations <i>[note 9]</i>	47,529	43,124
Project financing <i>[note 10]</i>	971,309	1,002,131
Deferred capital contributions <i>[note 12]</i>	311,883	307,952
Total liabilities	1,531,608	1,548,656
Net assets and share capital		
Share capital: authorized and issued - 100 common shares	1	1
Invested in capital assets <i>[note 13]</i>	363,179	303,545
Surplus - internally restricted <i>[note 14]</i>	105,206	81,239
Unrestricted surplus	17,070	24,882
Total net assets and share capital	485,456	409,667
	2,017,064	1,958,323

See accompanying notes

Approved on behalf of the Board:

Director

Director

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DRAFT FOR DISCUSSION

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF OPERATIONS
[000's]

Year ended December 31

	2005 \$	2004 \$
REVENUE		
Subsidies <i>[note 15]</i>	301,365	283,884
Rent		
Residential	258,115	261,308
Commercial	8,048	6,210
Amortization of deferred capital contributions	21,384	20,129
Parking, laundry and cable fees	17,278	15,917
Interest income	7,143	4,735
Other	2,309	2,352
	615,642	594,535
EXPENSES		
Operating and maintenance	220,098	213,036
Municipal taxes	115,294	110,907
Mortgage interest	67,022	71,151
Administration <i>[note 16]</i>	53,426	52,379
Depreciation	63,924	59,339
Rent supplement program <i>[note 15]</i>	22,809	21,436
Guaranteed Equity Housing Project - deficit <i>[note 7]</i>	486	416
	543,059	528,664
Net operating income for the year	72,583	65,871
Gain on sale of properties	66	—
Change in unrealized loss on investments	3,140	1,974
Excess of revenue over expenses for the year	75,789	67,845

See accompanying notes

Toronto Community Housing Corporation

**CONSOLIDATED STATEMENT OF
CHANGES IN NET ASSETS**

[000's]

Year ended December 31

	2005			
	Net capital assets \$	Surplus internally restricted \$	Unrestricted surplus \$	Total \$
Net assets, beginning of year	303,545	81,239	24,882	409,666
Excess of revenue over expenses for the year	—	—	75,789	75,789
Change in net assets invested in capital assets [note 13]	59,634	—	(59,634)	—
Change in internally restricted net assets [note 14]	—	23,967	(23,967)	—
Net assets, end of year	363,179	105,206	17,070	485,455

	2004			
	Net capital assets \$	Surplus internally restricted \$	Unrestricted surplus \$	Total \$
Net assets, beginning of year	274,166	57,664	9,991	341,821
Excess of revenue over expenses for the year	—	—	67,845	67,845
Change in net assets invested in capital assets [note 13]	29,379	—	(29,379)	—
Change in internally restricted net assets [note 14]	—	23,575	(23,575)	—
Net assets, end of year	303,545	81,239	24,882	409,666

See accompanying notes

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[000's]

Year ended December 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	75,789	67,845
Add (deduct) items not involving cash		
Amortization of deferred capital contributions	(21,384)	(20,131)
Depreciation	64,191	59,604
Gain on sale of properties	(66)	—
Unrealized loss on investments	3,140	1,974
Change in unrealized loss on investments related to capital asset replacement reserve	1,123	801
	122,793	110,093
Changes in non-cash working capital balances related to operations		
Accounts receivable	(17,485)	(10,933)
Prepaid expenses	(112)	(129)
Prepaid lease	54	57
Accounts payable and accrued liabilities	7,322	(3,803)
Tenants' deposits and rents received in advance	(264)	770
Deferred revenue	1,800	—
Deferred revenue on long-term leases	(462)	82
Net change in employee benefits obligations	4,405	3,798
Cash provided by operating activities	118,051	99,935
INVESTING ACTIVITIES		
Net increase in investments	(6,534)	(27,175)
Acquisition of housing projects	(24,201)	(5,556)
Proceeds on sale of housing projects	679	—
Purchase of other capital assets	(75,484)	(71,765)
Cash used in investing activities	(105,540)	(104,496)
FINANCING ACTIVITIES		
Repayment of project financing	(28,417)	(25,832)
New project financing assumed	—	7,501
Revenue deferred for capital asset replacement reserve	6,857	6,617
Investment income earned on capital asset replacement reserve	3,860	3,044
Special contributions from the Ontario Ministry of Municipal Affairs and Housing to the capital asset replacement reserve	—	100
Contribution of housing projects	8,112	10,943
Cash provided by (used in) financing activities	(9,588)	2,373
Net increase (decrease) in cash during the year	2,923	(2,188)
Cash, beginning of year	546	2,734
Cash, end of year	3,469	546

See accompanying notes

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DRAFT FOR DISCUSSION

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. THE COMPANY AND ITS MISSION

Toronto Community Housing Corporation ["TCHC"] was incorporated under the provisions of the Ontario Business Corporations Act and 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 is a non-profit organization and, as such, is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

TCHC provides high-quality housing environments for low- and moderate-income tenants. It is committed to healthy and sustainable tenant communities in which tenants and staff see their diversity as their strength and tenants participate fully in shaping their communities.

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, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board. 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 Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Revenue recognition

TCHC follows the deferral method of accounting for revenue. Unrestricted contributions 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.

Other revenue is recorded when services are provided and collection is reasonably assured.

Investments

Investments in pooled and cash management funds are recorded at market value. Investment income includes interest, dividends and realized and unrealized 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 funds on the consolidated balance sheet.

Capital assets

Housing projects are recorded at cost less accumulated depreciation. Cost includes the original cost of land and buildings, other related costs [including capitalized interest] and net operating expenses up to the interest adjustment date [date of substantial completion]. The cost of major improvements necessary to renovate and refurbish buildings which are financed by mortgages are also included in housing project costs.

Commencing in 2004, the method of calculating depreciation on housing projects changed from the sinking fund method, whereby depreciation is recorded at an amount equal to the principal repayments on the housing project mortgages, to straight-line depreciation calculated on the undepreciated value of the project at January 1, 2004 amortized equally over its estimated remaining useful life.

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 - 25 years
Furniture and equipment	4 - 15 years
Leasehold improvements	Over the term of the lease

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

Deferred capital contributions

Capital contributions 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:

- [i] TCHC's contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;
- [ii] 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;
- [iii] The costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance;
- [iv] Employee future benefit liabilities are discounted using current interest rates on long-term bonds;
- [v] 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; and
- [vi] The costs of the workplace safety and insurance obligations are actuarially determined and expensed. Actuarial gains and losses are recognized as incurred.

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 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. Actual results could differ from those estimates.

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

3. INVESTMENTS

Investments consist of the following:

	2005	2004
	\$	\$
		[000's]
Pooled investment funds:		
Fixed Income Fund	74,845	67,124
Global Equity Fund	37,814	35,243
Canadian Equity Fund	30,372	27,779
U.S. Money Market	461	187
	143,492	130,333
Cash management funds	72,765	85,095
Other	2,565	—
	218,822	215,428
Less investments restricted by Ministry of Municipal Affairs and Housing for capital asset replacement reserve <i>[note 11]</i>	56,334	61,697
Less investments for internally restricted purposes <i>[note 14]</i>	105,206	81,239
	57,282	72,492

4. ACCOUNT BALANCES WITH CITY OF TORONTO

[a] 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 the receivable from the City is \$3,870,000 [2004 - \$3,870,000] for sick leave benefits less \$409,000 [2004 - \$409,000], being an amount funded by TCHC *[note 9]*, and \$17,056,000 [2004 - \$17,056,000] for other employment and post-employment benefits *[note 9]*.

[b] Included in accounts receivable is approximately \$77,158,000 [2004 - \$54,345,000] receivable from the City and included in accounts payable and accrued liabilities is approximately \$8,243,000 [2004 - \$4,348,000] payable to the City, which arose in the normal course of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

5. HOUSING PROJECTS

Housing projects consist of the following:

	2005				
	January 1	Re- allocation	Additions (disposals)	Completed during the year	December 31
	\$	\$	\$	\$	\$
	[000's]				
Land	345,866	—	(9)	—	345,857
Buildings	1,280,575	—	(28)	11,124	1,291,671
Equipment	22,168	—	—	—	22,168
Housing projects under construction	8,005	—	24,201	(11,124)	21,082
Net operating expenses prior to completion date	1,999	—	—	—	1,999
	1,658,613	—	24,164	—	1,682,777
Less accumulated depreciation	276,076	—	44,226	—	320,302
	1,382,537	—	(20,062)	—	1,362,475

	2004				
	January 1	Re- allocation	Additions (disposals)	Completed during the year	December 31
	\$	\$	\$	\$	\$
	[000's]				
Land	369,746	(24,065)	185	—	345,866
Buildings	1,256,457	23,933	185	—	1,280,575
Equipment	22,168	—	—	—	22,168
Housing projects under construction	2,687	132	5,186	—	8,005
Net operating expenses prior to completion date	1,999	—	—	—	1,999
	1,653,057	—	5,556	—	1,658,613
Less accumulated depreciation	232,223	—	43,853	—	276,076
	1,420,834	—	(38,297)	—	1,382,537

In 2004, the analysis related to the change to straight-line depreciation identified some allocation errors in recording cost between land, buildings and housing projects under construction. An adjustment was made in 2004 to correct this misallocation. The misallocation had no impact on excess of revenue over expenses in 2004 or prior years.

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

6. OTHER CAPITAL ASSETS

Other capital assets consist of the following:

	2005		
	January 1	Additions during the year	December 31
	\$	\$	\$
		[000's]	
Improvements to land and buildings	267,753	64,227	331,980
Furniture and equipment	27,442	9,645	37,087
Leasehold improvements	1,225	1,036	2,261
	296,420	74,908	371,328
Less accumulated depreciation	38,045	19,698	57,743
	258,375	55,210	313,585

	2004		
	January 1	Additions during the year	December 31
	\$	\$	\$
		[000's]	
Improvements to land and buildings	200,814	66,939	267,753
Furniture and equipment	23,841	3,601	27,442
Leasehold improvements	—	1,225	1,225
	224,655	71,765	296,420
Less accumulated depreciation	22,560	15,485	38,045
	202,095	56,280	258,375

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. GUARANTEED EQUITY HOUSING PROJECT

TCHC owns a building which 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, that were sold to seniors under terms which guarantee repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the Consumer Price Index. This obligation is recorded at \$14,208,000 [2004 - \$14,045,000] and is included in TCHC's accounts payable and accrued liabilities in these consolidated financial statements. The fair market value of this obligation is not determinable as there are no defined repayment terms.

Net sales proceeds on the units sold, together with interest earnings, will be used to finance the buyback of the Guaranteed Equity Units upon termination of the project in the year 2042. It is projected that any balance of the final redemption costs will be financed by the market value of land, which remains in TCHC's ownership. Should this be insufficient, TCHC will finance the balance by taking out a mortgage loan on the property.

The Guaranteed Equity Housing Project assets consist of the following:

	January 1	2005 Net change during the year	December 31
	\$	\$	\$
		[000's]	
Land	1,216	—	1,216
Buildings	12,807	—	12,807
Equipment	11	—	11
Net operating expenses to completion date	240	—	240
	14,274	—	14,274
Less accumulated depreciation	2,930	267	3,197
	11,344	267	11,077

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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

	2005	2004
	\$	\$
	[000's]	
Depreciation	267	266
Operating, marketing and selling	63	43
Administrative and other	87	43
Equity appreciation	135	102
	552	454
Less sundry revenue	64	36
Less amortization of deferred capital contributions	2	2
	486	416

8. CREDIT FACILITY AND LOAN GUARANTEE

TCHC has an authorized credit facility to a maximum of \$12,000,000. Borrowings under this credit facility are repayable on demand and bear interest at the bank's prime rate. As at December 31, 2005 and 2004, there are no borrowings under this credit facility.

TCHC has provided a guarantee of \$2,819,000 [2004 - \$4,778,000] in favour of Toronto Hydro Electric Services Inc. as security for payment of hydro invoices under TCHC's agreement with them.

9. EMPLOYEE BENEFITS OBLIGATIONS

The employee benefits obligations of TCHC are as follows:

	2005	2004
	\$	\$
	[000's]	
Workers' Safety and Insurance Board ["WSIB"] obligations	13,578	15,086
Sick leave benefits	7,264	6,508
Vacation pay	2,337	2,188
Severance/termination benefits	2,868	2,488
Other employment and post-employment benefits	21,482	16,854
	47,529	43,124

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

The continuity of TCHC's accrued benefit obligations, in aggregate, is as follows:

	2005	2004
	\$	\$
		[000's]
Employee benefit obligations, beginning of year	40,936	36,728
Current service cost and change in prior service cost reserve	694	4,008
Interest cost	1,284	1,196
Expected benefits paid	(789)	(996)
Actuarial loss	3,067	—
Balance, end of year	45,192	40,936
Vacation pay	2,337	2,188
	47,529	43,124

The benefit plans noted above are all unfunded. Employees are not required to contribute towards the cost of the benefits provided.

Liability for sick leave benefits

Under the sick leave benefit plan, unused sick leave can accumulate and the 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 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 \$3,870,000 [2004 - \$3,870,000] less \$409,000 [2004 - \$409,000], being an amount funded by TCHC [note 4[a]].

Workplace safety and insurance obligations

TCHC is a Schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes responsibility for financing its workplace safety insurance costs. The accrued obligation represents the actuarial valuation of claims to be insured based on the history of claims with TCHC employees.

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

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 amounts could be taken in cash by them on termination.

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 THC 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 \$17,056,000 [2004 - \$17,056,000], representing the liability portion relating to the former THC, is recorded as a receivable from the City [note 4[a]].

The liabilities reported in these consolidated financial statements are based on valuations as at December 31, 2005. Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of January 1, 2003. The accrued benefit obligation as at December 31, 2005 is based on an extrapolation of the January 1, 2003 valuation.

During the year, TCHC made payments of benefits directly to employees and retirees of approximately \$5,365,000 [2004 - \$5,359,000].

Toronto Community Housing Corporation

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

	2005 %	2004 %
Discount rates for benefit obligation:		
- post retirement and sick leave	5.0	6.0
- post employment	4.75	5.25
Discount rates for benefit costs:		
- post retirement and sick leave	6.0	6.0
- post employment	5.25	5.5
Rate of compensation increase	3.0	3.0
Health care inflation	8.1	7.4

For measurement purposes, an 8.1% [2004 - 7.4%] annual rate of increase in the per capita cost of covered health care benefits was assumed. The rate was assumed to decrease gradually to 5.2% [2004 - 4.9%] by 2013 and remain at that level thereafter.

Pension agreement

Employees are members of the Ontario Municipal Employees' Retirement Fund ["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 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. As a result, TCHC does not recognize any share of OMERS pension surplus or deficit.

As the full contribution holiday for members and employers ended December 31, 2002, OMERS gradually raised the rates over three years until, by 2005, they were at their full amount. Depending on the individual's normal retirement age and pensionable earnings, 2005 contribution rates were between 6% to 8.8% [2004 - 6% to 8.8%]. Total employer contributions for the year ended December 31, 2005 amounted to \$4,022,000 [2004 - \$4,022,000] and are included in administration expenses on the consolidated statement of operations.

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10. PROJECT FINANCING

Project financing consists of the following:

	2005 \$	2004 \$
		[000's]
Long-term loans payable to the City of Toronto	35,602	36,844
Mortgages payable to		
Canada Mortgage and Housing Corporation	495,181	509,527
Others	470,215	483,044
	1,000,998	1,029,415
Less current portion	29,689	27,284
	971,309	1,002,131

Principal repayments are due as follows:

	City of Toronto \$	Canada Mortgage and Housing Corporation \$	Others \$	Total \$
				[000's]
2006	1,145	15,113	13,431	29,689
2007	1,213	15,938	14,260	31,411
2008	1,407	16,802	15,127	33,336
2009	1,391	17,680	15,973	35,044
2010	1,645	18,730	16,984	37,359
2011 to 2032	28,801	410,918	394,440	834,159
	35,602	495,181	470,215	1,000,998

Principal repayments due in 2007 to 2032 include interest bearing loans from the City amounting to \$2,300,000. These loans will be forgiven upon maturity in the years 2007 to 2016 if TCHC adheres to the terms and conditions under which the loans were originally granted.

Canada Mortgage and Housing Corporation ["CMHC"] mortgages bear interest at rates between 5.0% and 12.0%. These mortgages mature between 2007 and 2032.

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Other mortgages bear interest at rates between 4.4% and 13.3%. These mortgages mature between 2006 and 2028.

11. CAPITAL ASSET REPLACEMENT RESERVE

Under the terms of an agreement with the Ontario Ministry of Municipal Affairs and Housing [the "MMAH"], 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:

	2005	2004
	\$	\$
		[000's]
Balance, beginning of year	61,697	67,259
Revenue deferred during the year	6,857	6,616
Investment income	3,860	3,044
Change in unrealized loss on investments	1,123	801
Special contributions	—	100
Less transfer to deferred capital contributions for approved expenditures <i>[note 12]</i>	(17,203)	(16,123)
Balance, end of year	56,334	61,697

12. 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.

Toronto Community Housing Corporation

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

	2005 \$	2004 \$
		[000's]
Balance, beginning of year	307,952	301,017
Contribution of housing projects	8,120	10,943
Contribution from Ministry of Municipal Affairs and Housing capital asset replacement reserve <i>[note 11]</i>	17,203	16,123
Less unamortized contributions related to housing projects sold	8	—
Less amortization of deferred capital contributions	21,384	20,131
Balance, end of year <i>[note 18]</i>	311,883	307,952

13. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets consist of the following:

	2005 \$	2004 \$
		[000's]
Housing projects <i>[note 5]</i>	1,362,475	1,382,537
Other capital assets <i>[note 6]</i>	313,585	258,375
Less project financing <i>[note 10]</i>	1,000,998	1,029,415
Less deferred capital contributions <i>[note 12]</i>	311,883	307,952
	363,179	303,545

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The change in net assets invested in capital assets is calculated as follows:

	2005	2004
	\$	\$
		[000's]
Acquisition of housing projects	24,201	5,556
Purchase of other capital assets	75,484	71,765
Unamortized contributions related to housing projects sold	8	—
Repayment of project financing	28,417	25,832
Amortization of deferred capital contributions	21,384	20,131
Less new project financing assumed	—	7,501
Less contribution of housing projects new capital grants	8,120	10,943
Less transfer from capital asset replacement reserve	17,203	16,123
Less cost of housing projects sold	613	—
Less depreciation of housing projects and other capital assets	63,924	59,338
	59,634	29,379

14. NET ASSETS INTERNALLY RESTRICTED

These 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 the general operating expenses of TCHC.

Unrestricted Contingency Reserve Fund

The Unrestricted Contingency Reserve Fund was established to finance contingency expenditures not otherwise budgeted or funded as approved by the Board of Directors and capital and operating expenditures relating to the existing and new buildings where no other sources of funding exist.

Consolidated Tenants' Benefits Fund

The Consolidated Tenants' Benefits Fund was established and credited with certain receipts of TCHC that were used for the benefit of the tenants. The fund has been transferred to tenant councils in 2005.

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Don Mount Court Reserve Fund

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

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.

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Net assets internally restricted consist of the following:

	Unrestricted Contingency Reserve Fund \$	Consolidated Tenants' Benefits Fund \$	Don Mount Court Reserve Fund \$	Regent Park Development Reserve Fund \$	2005 Total \$	2004 Total \$
	[000's]					
Transfers from operations for the year consist of						
Operating surplus transfer	16,413	—	—	14,000	30,413	24,616
Transfer to operating surplus to close reserve	—	(137)	—	—	(137)	—
Investment	(500)	—	—	—	(500)	—
Investment income earned	2,868	—	624	1,145	4,637	2,636
Building space rental	—	—	—	—	—	29
Market value adjustment	1,411	—	125	514	2,050	1,023
Expenditures	(363)	—	(4,963)	(7,247)	(12,573)	(4,408)
Glenmaple financing	77	—	—	—	77	(321)
Net transfers for the year	19,906	(137)	(4,214)	8,412	23,967	23,575
Balance, beginning of year	52,517	137	10,644	17,941	81,239	57,664
Balance, end of year	72,423	—	6,430	26,353	105,206	81,239

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15. SUBSIDIES

TCHC administers various programs on behalf of the City. TCHC incurred costs of \$15,396,000 [2004 - \$15,537,000] for the commercial rent supplement program and \$10,553,000 [2004 - \$8,600,000] for the provincial homelessness initiative. Some of TCHC's other projects were also funded by these programs in the amount of \$3,140,000 [2004 - \$2,701,000] for net program costs of \$22,809,000 [2004 - \$21,436,000]. Subsidies offsetting these net costs received from the City have been recorded in revenue.

16. COMMITMENTS AND CONTINGENCIES

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

	\$ [000's]
2006	3,786
2007	4,120
2008	4,120
2009	4,081
2010	3,494
Thereafter	35,790
	<hr/> 55,391

[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, 2005, it is management's position that TCHC has valid defences and appropriate insurance coverage in place. In the unlikely event that any claims are successful, such claims are not expected to have a material effect on TCHC's financial position.

17. TENANT PROTECTION ACT

Under the Tenant Protection Act, 1997, rental units located in a non-profit housing project that was developed under a prescribed federal or provincial program are exempt from residential rent controls.

18. CONTINGENCIES

TCHC will be liable to repay certain CMHC loans, not yet formally forgiven, amounting to \$5,979,000 which are included in deferred capital contributions [note 12], should it fail to adhere to the terms and conditions under which the loans were originally granted.

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19. PUBLIC SECTOR SALARY DISCLOSURE ACT, 1996

The Public Sector Salary Disclosure Act, 1996 [the "Act"], requires the disclosure of the salaries and benefits of employees in the public sector who are paid a salary of \$100,000 or more in a year. TCHC complies with this Act by providing the information to the MMAH for disclosure on the public website.

20. FINANCIAL INSTRUMENTS

Financial risk

Financial risk is the risk to TCHC's income that arises from fluctuations in market rates, interest rates and foreign exchange rates and the degree of volatility of these rates. TCHC is subject to market, interest and foreign exchange rate risk with respect to its investments.

Fair value

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