Consolidated Financial Statements

Toronto Community Housing Corporation

December 31, 2007

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 28, 2008.

Toronto Community Housing Corporation

CONSOLIDATED BALANCE SHEET

[000s]

As at December 31

	2007 $	2006 $
ASSETS		
Current		
Cash	**3,126**	2,429
Investments *[note 3]*	**284,364**	79,417
Accounts receivable *[note 4[a]]*	**65,474**	53,678
Prepaid expenses	**3,946**	3,965
Total current assets	**356,910**	139,489
Investment and loan receivable *[note 5]*	**6,570**	—
Investments for capital asset replacement reserve *[note 3]*	**24,770**	45,497
Investments for internally restricted purposes *[note 3]*	**127,923**	115,544
Receivable from the City of Toronto *[note 4[b]]*	**20,517**	20,517
Housing projects *[notes 3[c] and 6]*	**1,363,379**	1,351,312
Other capital assets *[note 7]*	**526,426**	422,433
Guaranteed Equity Housing Project *[note 8]*	**10,543**	10,810
Prepaid lease	**1,468**	1,524
	2,438,506	2,107,126
LIABILITIES AND NET ASSETS AND SHARE CAPITAL		
Current		
Bank loan *[note 9]*	**17,847**	—
Accounts payable and accrued liabilities *[notes 4[a]] and 8]*	**119,377**	107,085
Tenants' deposits and rents received in advance	**8,715**	8,037
Deferred revenue	**4,173**	2,617
Current portion of deferred revenue on long-term leases	**71**	71
Current portion of project financing *[note 11]*	**38,717**	32,858
Total current liabilities	**188,900**	150,668
Capital asset replacement reserve *[note 12]*	**24,770**	45,497
Deferred revenue on long-term leases	**1,655**	2,251
Employee benefits *[note 10]*	**58,257**	53,116
Project financing *[note 11]*	**1,044,063**	977,582
Debenture loan *[note 11[e]]*	**177,448**	—
Deferred capital contributions *[note 13]*	**321,207**	315,187
Total liabilities	**1,816,300**	1,544,301
Commitments and contingencies *[notes 17 and 19]*		
Net assets and share capital		
Share capital: authorized and issued - 100 common shares	**1**	1
Invested in capital assets *[note 14]*	**485,818**	448,118
Surplus - internally restricted *[note 15]*	**127,923**	115,544
Unrestricted surplus (deficit)	**8,464**	(838)
Total net assets and share capital	**622,206**	562,825
	2,438,506	2,107,126

See accompanying notes

Approved on behalf of the Board:

Director　　　　　　　　Director

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF OPERATIONS

[000s]

Year ended December 31

	2007	2006
	$	$
REVENUE		
Subsidies *[note 16]*	**301,461**	303,333
Rent		
Residential *[note 18]*	**260,748**	258,738
Commercial	**9,241**	8,244
Amortization of deferred capital contributions *[note 13]*	**26,601**	22,616
Parking, laundry and cable fees	**18,366**	17,315
Investment income	**17,896**	4,563
Change in unrealized gain (loss) on investments	**(9,016)**	11,110
Other	**5,698**	3,212
	630,995	629,131
EXPENSES		
Operating and maintenance *[notes 10 and 17[b]]*	**229,463**	226,801
Municipal taxes	**110,813**	111,136
Depreciation	**79,872**	70,856
Interest	**69,717**	64,145
Administration *[notes 10, 11[e] and 17[a]]*	**57,808**	58,109
Rent supplement program *[note 16]*	**23,495**	20,384
Guaranteed Equity Housing Project - deficit *[note 8]*	**446**	331
	571,614	551,762
Excess of revenue over expenses for the year	**59,381**	77,369

See accompanying notes

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[000s]

Year ended December 31

	2007	2006
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**59,381**	77,369
Add (deduct) items not involving cash		
Amortization of deferred capital contributions	**(26,601)**	(22,616)
Depreciation	**79,075**	71,123
Change in unrealized (gain) loss on investments	**9,016**	-11,110
	120,871	114,766
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(11,796)**	28,294
Prepaid expenses	**19**	(398)
Prepaid lease	**56**	56
Bank loan	**17,847**	—
Accounts payable and accrued liabilities	**21,541**	(16,429)
Tenants' deposits and rents received in advance	**678**	131
Deferred revenue	**1,556**	817
Deferred revenue on long-term leases	**(596)**	204
Employee benefit obligations	**5,141**	7,924
Cash provided by operating activities	**155,317**	135,365
INVESTING ACTIVITIES		
Increase in investment and loan receivable	**(6,570)**	—
Net decrease in investments	**(204,399)**	(7,368)
Acquisition of housing projects	**(56,736)**	(33,567)
Purchase of other capital assets	**(138,132)**	(134,974)
Cash used in investing activities	**(405,837)**	(175,909)
FINANCING ACTIVITIES		
Increase (decrease) in accounts payable and accrued liabilities related to the purchase of housing projects or other capital assets	**(9,249)**	18,137
Repayment of project financing	**(33,665)**	(36,469)
New project financing assumed	**106,922**	49,601
Deferred direct financing costs - new project financing	**(917)**	—
New debenture loan assumed	**179,797**	—
Deferred direct financing costs - new debenture loan assumed	**(2,349)**	—
Revenue deferred for capital asset replacement reserve	**7,134**	7,060
Restricted grants for housing projects	**3,544**	1,175
Cash provided by financing activities	**251,217**	39,504
Net increase (decrease) in cash during the year	**697**	(1,040)
Cash, beginning of year	**2,429**	3,469
Cash, end of year	**3,126**	2,429

See accompanying notes

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

[000s]

Year ended December 31

	2007			
	Invested in capital assets	**Surplus - internally restricted**	**Unrestricted surplus (deficit)**	**Total**
	$	$	$	$
Net assets, beginning of year	**448,118**	**115,544**	**(838)**	**562,824**
Excess of revenue over expenses for the year	—	—	**59,381**	**59,381**
Change in net assets invested in capital assets *[note 14]*	**37,700**	—	**(37,700)**	—
Change in internally restricted net assets *[note 15]*	—	**12,379**	**(12,379)**	—
Net assets, end of year	**485,818**	**127,923**	**8,464**	**622,205**

	2006			
	Invested in capital assets	**Surplus - internally restricted**	**Unrestricted surplus (deficit)**	**Total**
	$	$	$	$
Net assets, beginning of year	363,179	105,206	17,070	485,455
Excess of revenue over expenses for the year	—	—	77,369	77,369
Change in net assets invested in capital assets *[note 14]*	84,939	—	(84,939)	—
Change in internally restricted net assets *[note 15]*	—	10,338	(10,338)	—
Net assets, end of year	448,118	115,544	(838)	562,824

See accompanying notes

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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 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.

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

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:

New and future accounting policy changes

Effective January 1, 2007, TCHC adopted the recommendations of CICA 3855: *Financial Instruments - Recognition and Measurement*, CICA 3861: *Financial Instruments - Disclosure and Presentation* and CICA 3865: *Hedges*. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As required by CICA 3855 and consistent with the accounting policy for investments used to prepare the prior year's financial statements, investments continue to be presented at fair value. As permitted by CICA 3855, TCHC's derivative contracts continue to be recorded at fair value and other financial assets and liabilities continue to be presented at amortized cost which approximates fair value.

As required by the transitional provisions of CICA 3855, the change in accounting policy was adopted retroactively, without restatement of the prior year's financial statements. The adoption of CICA 3855, 3861 and 3865 did not have a significant impact on the financial statements in the prior or current year.

The CICA has issued two new accounting standards, CICA 3862: *Financial Instruments – Disclosures* and CICA 3863: *Financial Instruments – Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

The CICA has issued a new accounting standard, CICA 1535: *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The above three changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the consolidated financial statements.

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.

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.

Investments and investment income

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

[a] Short-term notes and treasury bills are valued based on cost plus accrued income, which approximates fair value.

[b] Publicly traded bonds and equities are determined based on the latest bid prices.

[c] Investments in pooled funds are valued at their reported net asset value per unit.

[d] Investments in entities subject to significant influence are accounted for using the equity basis of accounting. These investments are initially valued at cost and the carrying value adjusted thereafter to include TCHC's pro rata share of income less distributions received. Management believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a readily market for such investments existed.

Transactions are recorded on a trade date basis. Transaction costs are expense as incurred, except for direct financing costs that are included in the carrying value of the financial liabilities.

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.

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 in 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

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. Depreciation is calculated using the straight-line method and is based on the estimated useful lives of the housing projects up to a maximum of 50 years.

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

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 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 incurred;

[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, which is between 9 and 11 years; and

[vi] The costs of the workplace safety and insurance obligations are actuarially determined and expensed. Actuarial gains and losses are recognized as incurred.

Foreign exchange 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 the 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 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.

3. INVESTMENTS

Investments consist of the following:

[000s]	**2007** $	**2006** $
Pooled investment funds		
Global Equity Fund	**58,430**	53,221
Fixed Income Fund	**57,431**	52,492
Canadian Equity Fund	**39,578**	38,454
Canadian Bond Fund	**17,738**	14,760
	173,177	158,927
Term deposits	**243,894**	—
Money Market Fund	**19,182**	80,803
Other	**804**	728
	437,057	240,458
Less investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve *[note 12]*	**(24,770)**	(45,497)
Less investments for internally restricted purposes *[note 15]*	**(127,923)**	(115,544)
	284,364	79,417

4. ACCOUNT BALANCES WITH CITY OF TORONTO

[a] TCHC enters into transactions with the City in the normal course of business under normal trade terms and includes payments for various services and supplies. Included in accounts receivable is approximately $44,482,000 [2006 - $38,253,000] receivable from the City, and included in accounts payable and accrued liabilities is approximately $10,002,000 [2006 - $10,641,000] payable to the City as a result of these transaction.

[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 receivable from the City is $3,870,000 [2006 - $3,870,000] for sick leave benefits less $409,000 [2006 - $409,000], being an amount funded internally by TCHC *[note 10[f]]*, and $17,056,000 [2006 - $17,056,000] for other employment and post-employment benefits *[note 10[h]]*.

[c] During 2007, TCHC and the City exchanged land of similar size and value of approximately $3,700,000. No gain or loss was recorded on this exchange.

5. INVESTMENT AND LOAN RECEIVABLE

[a] TCHC's wholly-owned subsidiary, Regent Park Development Corporation ["RPDC"] has entered into a joint venture 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"].

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

As at December 31 [000s]	**2007** $	**2006** $ [unaudited]
Assets	**4,034**	207
Liabilities	**(4,096)**	(209)
Net deficit	**(62)**	(2)

For the period ended December 31 [000s]	**2007** $	**2006** $ [unaudited]
Expenses	**(62)**	(2)
Loss for the year	**(62)**	(2)
Cash flows provided by operating activities	**477**	87
Cash flows provided by financing activities	**3,286**	115
Cash flows used in investing activities	**(3,245)**	(202)

Loss for the year has been included in investment income.

[b] In 2007, TCHC entered into a loan agreement with DPDC to advance funds for the interim financing of the construction based on standard commercial terms for construction loans. 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. Advances earn interest at the bank's prime rate plus 0.28%. As at December 31, 2007, TCHC has advanced $6,570,000 to DPDC.

6. HOUSING PROJECTS

Housing projects consist of the following:

	2007			
[000s]	**January 1** $	**Additions** $	**Completed during the year** $	**December 31** $
Land	**350,452**	**—**	**—**	**350,452**
Buildings	**1,303,082**	**—**	**174**	**1,303,256**
Equipment	**22,168**	**—**	**—**	**22,168**
Housing projects under construction	**40,642**	**56,736**	**(174)**	**97,204**
	1,716,344	**56,736**	**—**	**1,773,080**
Less accumulated depreciation	**(365,032)**	**(44,669)**	**—**	**(409,701)**
	1,351,312	**12,067**	**—**	**1,363,379**

	2006			
[000s]	**January 1** $	**Additions** $	**Completed during the year** $	**December 31** $
Land	345,881	—	4,571	350,452
Buildings	1,293,646	—	9,436	1,303,082
Equipment	22,168	—	—	22,168
Housing projects under construction	21,082	33,567	(14,007)	40,642
	1,682,777	33,567	—	1,716,344
Less accumulated depreciation	(320,302)	(44,730)	—	(365,032)
	1,362,475	(11,163)	—	1,351,312

7. OTHER CAPITAL ASSETS

Other capital assets consist of the following:

	2007		
[000s]	**January 1** $	**Additions during the year** $	**December 31** $
Improvements to land and buildings	**435,613**	**118,394**	**554,007**
Furniture and equipment	**68,343**	**19,387**	**87,730**
Leasehold improvements	**2,346**	**351**	**2,697**
	506,302	**138,132**	**644,434**
Less accumulated depreciation	**(83,869)**	**(34,139)**	**(118,008)**
	422,433	**103,993**	**526,426**

	2006		
[000s]	**January 1** $	**Additions during the year** $	**December 31** $
Improvements to land and buildings	331,980	103,633	435,613
Furniture and equipment	37,087	31,256	68,343
Leasehold improvements	2,261	85	2,346
	371,328	134,974	506,302
Less accumulated depreciation	(57,743)	(26,126)	(83,869)
	313,585	108,848	422,433

Other capital assets include assets under capital leases totalling $18,560,620 [2006 - $10,235,756] *[note 11[c][iii]]*.

8. 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 $14,277,000 [2006 - $14,895,000] 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 earned, 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:

		2007	
	January 1	**Net change during the year**	**December 31**
[000s]	$	$	$
Land	**1,216**	**—**	**1,216**
Buildings	**13,047**	**—**	**13,047**
Equipment	**11**	**—**	**11**
	14,274	**—**	**14,274**
Less accumulated depreciation	**(3,464)**	**(267)**	**(3,731)**
	10,810	**(267)**	**10,543**

	2006		
		Net change during	
	January 1	**the year**	**December 31**
[000s]	$	$	$
Land	1,216	—	1,216
Buildings	13,047	—	13,047
Equipment	11	—	11
	14,274	—	14,274
Less accumulated depreciation	(3,197)	(267)	(3,464)
	11,077	(267)	10,810

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

	2007	**2006**
[000s]	$	$
Depreciation	**267**	267
Equity appreciation	**128**	38
Operating, marketing and selling	**59**	56
Administrative and other	**49**	37
	503	398
Less sundry revenue	**(55)**	(65)
Less amortization of deferred capital contributions	**(2)**	(2)
Deficit	**446**	331

9. SHORT-TERM BANK FACILITIES

TCHC has a revolving credit facility of $200,000,000 [2006 - $20,000,000] that is available for short-term advances and letter of credit openings. Short-term advances are repayable on demand and incur interest charges at the bank's prime rate less 0.87%. As at December 31, 2007, TCHC has taken short-term advances of $17,846,545 [2006 - nil] and there are outstanding letters of credit of $3,165,068 [2006 - $1,951,400].

10. EMPLOYEE BENEFITS

[a] The employee benefits liabilities of TCHC are as follows:

[000s]	**2007** $	**2006** $
Workers' Safety and Insurance Board ["WSIB"] obligations *[note 10[e]]*	**13,873**	12,845
Sick leave benefits *[note 10[f]]*	**9,481**	9,339
Severance/termination benefits *[note 10[g]]*	**2,580**	2,625
Other employment and post-employment benefits *[note 10[h]]*	**25,683**	24,804
	51,617	49,613
Supplementary employee retirement plan ["SERP"] *[note 10[i]]*	**6,640**	3,503
	58,257	53,116

Additional information about TCHC's SERP and other benefit plans as at December 31, 2007 is as follows:

	SERP		**Other benefits**	
[000s]	**2007** $	**2006** $	**2007** $	**2006** $
Accrued benefit obligation	**23,487**	22,423	**46,134**	43,579
Unamortized past service cost	**(16,847)**	(18,920)	**5,483**	6,034
Consolidated balance sheet liability	**6,640**	3,503	**51,617**	49,613

[b] The continuity of TCHC's accrued benefit liabilities is as follows:

	SERP		Other benefits	
	2007	**2006**	**2007**	**2006**
[000s]	$	$	$	$
Balance, beginning of year	**3,503**	—	**49,613**	45,192
Current service cost	**828**	704	**3,244**	668
Interest cost	**1,221**	985	**1,319**	1,178
Expected benefits paid	**—**	—	**(1,091)**	(777)
Amortization of past service costs	**2,074**	1,814	**(551)**	(226)
Actuarial loss	**(986)**	—	**(917)**	3,578
Consolidated balance, end of year	**6,640**	3,503	**51,617**	49,613

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

[c] TCHC's employee benefits expenses for the year are as follows:

	SERP		Other benefits	
	2007	**2006**	**2007**	**2006**
[000s]	$	$	$	$
Current service cost	**828**	704	**3,244**	668
Interest cost	**1,221**	985	**1,319**	1,178
Amortization of past service costs	**2,074**	1,814	**(551)**	(226)
Actuarial loss	**(986)**	—	**(917)**	3,578
	3,137	3,503	**3,095**	5,198

[d] During the year, TCHC made non-pension benefits payments directly to employees and retirees of approximately $2,816,000 [2006 - $6,345,000].

[e] Workplace safety and insurance obligations

TCHC and its subsidiaries, except Housing Services Inc., which is a Schedule 1 employer, 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. Housing Services Inc. pays insurance premiums as calculated by the WSIB. The WSIB is responsible for costs of employees under this plan.

Due to the complexities in valuing the liabilities of WSIB, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2005 and the accrued benefit obligation as at December 31, 2007 is based on an extrapolation of the December 31, 2005 valuation. The next scheduled valuation will be completed as of December 31, 2009.

[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 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 [2006 - $3,870,000], less $409,000 [2006 - $409,000], being 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 most recent actuarial valuation was completed as of December 31, 2006 and the accrued benefit obligation as at December 31, 2007 is based on an extrapolation of the December 31, 2006 valuation. The next scheduled valuation will be completed as of 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 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 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 [2006 - $17,056,000], representing the liability portion relating to the former THC, is recorded as a receivable from the City *[note 4[b]]*.

Due to the complexities in valuing the liabilities of the other employment and post-employment benefits, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2006 and the accrued benefit obligation as at December 31, 2007 is based on an extrapolation of the December 31, 2006 valuation. The next scheduled valuation will be completed as of December 31, 2009.

[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 pension to OMERS.

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 February 15, 2006. The accrued benefit obligation as at December 31, 2007 is based on an extrapolation of the February 15, 2006 valuation. The next scheduled valuation will be completed as of December 31, 2009.

[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 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.

Depending on the individual's normal retirement age and pensionable earnings, 2007 contribution rates were 6.5% to 9.6% [2006 - 6.5% to 9.6%]. Total employer contributions for the year ended December 31, 2007 amounted to $5,192,000 [2006 - $5,359,000] and are included in administration expenses on the consolidated statement of operations.

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

	SERP		**Other benefits**	
	2007	**2006**	**2007**	**2006**
	%	%	%	%
Discount rates for benefit obligation				
- post-retirement and sick leave	**—**	—	**5.60**	5.25
- post-employment	**—**	—	**5.50**	4.75
- pension	**5.50**	5.25	**—**	—
Discount rates for benefit costs				
- post-retirement and sick leave	**—**	—	**5.25**	5.00
- post-employment	**—**	—	**4.75**	4.75
- pension	**5.25**	5.25	**—**	—
Rate of compensation increase	**3.00**	3.00	**3.00**	3.00
Health care inflation	**—**	—	**7.92**	8.27

For measurement purposes, a 7.92% [2006 - 8.27%] annual rate of increase in the per capita cost of covered health care benefits was assumed. The rate is assumed to decrease gradually to 5.0% [2006 - 5.0%] by 2013 and remain at that level thereafter.

11. PROJECT FINANCING AND DEBENTURE LOAN

Project financing consists of the following:

[000s]	**2007** $	**2006** $
Mortgages payable to		
Canada Mortgage and Housing Corporation ["CMHC"]	**461,690**	477,851
Others	**437,458**	452,311
Long-term loans payable to others	**83,312**	47,972
Debenture loan *[note 11[d]]*	**69,286**	—
Long-term loans payable to the City of Toronto	**31,034**	32,306
	1,082,780	1,010,440
Less current portion	**(38,717)**	(32,858)
	1,044,063	977,582

The change in project financing is calculated as follows:

[000s]	**2007** $	**2006** $
New loans assumed	**106,922**	49,601
Less mortgage payments	**(32,327)**	(30,801)
Less loan payments	**(1,338)**	(33)
Less deferred direct financing costs	**(917)**	—
Less mortgages retired	**—**	(5,635)
Net increase in financing	**72,340**	13,132

Principal repayments are due as follows:

[000s]	Canada Mortgage and Housing Corporation $	City of Toronto $	Others $	Total $
2008	17,059	1,391	20,267	38,717
2009	17,988	1,475	21,647	41,110
2010	18,958	1,564	22,734	43,256
2011	19,874	1,659	23,884	45,417
2012	20,887	1,754	25,095	47,736
2013 to 2037	366,924	23,191	476,429	866,544
	461,690	31,034	590,056	1,082,780

[a] CMHC mortgages bear interest at rates between 3.7% and 11.0% [2006 - 3.5% and 11.0%]. These mortgages mature between 2008 and 2032 [2006 - 2007 and 2032].

[b] Other mortgages bear interest at rates between 3.8% and 11.0% [2006 - 3.3% and 13.3%]. These mortgages mature between 2008 and 2032 [2006 - 2007 and 2028].

[c] Long-term loans payable to others consist of the following:

[i] As at December 31, 2007, TCHC has a committed interest-only construction bridge facility ["Facility A"] loan of $50,000,000 to assist with the financing of the first two years of the three- to four-year anticipated project construction period for Phase I of its Building Renewal Program. Facility A is to be converted at its maturity date of February 15, 2008 to Facility B. Facility B is a committed non-revolving amortizing one-year bankers' acceptance ["BA"] term loan with a 20-year amortization term. Principal repayments will begin on conversion of Facility A to Facility B. Upon maturity of Facility B at February 16, 2009, TCHC intends to renew Facility B.

Interest is payable at the BA rate plus 30 basis points [the "stamping fee"] for Facility A and 20 basis points for Facility B. TCHC's interest exposure on Facilities A and B are hedged under a committed 12-year interest rate swap facility ["Facility C"], which effectively fixes the interest rate on both facilities at 4.51% plus the applicable BA stamping fee. Facility C will continue to be available to hedge interest rate exposure on renewals of Facility B for the balance of Facility C's committed 12-year term, which matures February 15, 2018.

As at December 31, 2007, $50,000,000 [2006 - $22,000,000] of BAs were outstanding in connection with Facility A. The notional value of the interest rate swap was $50,000,000 [2006 - $22,000,000] and the fair value was a loss of approximately $44,000 [2006 - $310,000], which is recorded in investments on the consolidated balance sheet.

[ii] In September 2006, TCHC entered into a seven-year unsecured term loan of $14,650,000 to refinance certain of its buildings and renovations. Interest is payable at 4.58% [2006 - 4.16%]. The unamortized balance will be due at maturity. As at December 31, 2007, the term loan was $14,246,000 [2006 - $14,650,000].

[iii] TCHC had a capital leasing facility of $20,000,000 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 leased back to TCHC. Leasing payments started in August 2007 at $253,169 per month for a period of 96 months. As at December 31, 2007, $19,066,000 [2006 - $11,321,757] was outstanding on this facility.

[d] Loans from the City bear interest at rates between 2.5% and 11.0% [2006 - 2.5% and 11.0%]. These loans mature between 2008 and 2038 [2006 - 2007 and 2038].

[e] TCHC has entered into a Credit Agreement with TCHC Issuer Trust which in turn has entered into an agreement with various agents to issue $250,000,000 4.877% Debentures Series A bonds due May 11, 2037. TCHC Issuer Trust has advanced the proceeds of the bond offering to TCHC as a loan of $250,000,000 pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust.

TCHC has used $70,203,000 for long-term financings of social housing projects in 2007. The balance of the loan of $179,797,000 will be used for long-term financing of social housing projects and related programs of TCHC and its affiliates. TCHC incurred costs of $3,297,000, which reduced the carrying value of the related debt and are amortized over the same term as the debt. Amortization of $31,000 was recorded in 2007.

Debenture debt consists of the following:

	2007		
[000s]	**Project financing** $	**Debenture loan** $	**Total** $
Proceeds of debt	**70,203**	**179,797**	**250,000**
Deferred financing costs	**(917)**	**(2,349)**	**(3,266)**
	69,286	**177,448**	**246,734**

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:

[000s]	**2007** $	**2006** $
Balance, beginning of year	**45,497**	56,334
Revenue deferred during the year	**7,134**	7,060
Investment income	**1,216**	3,158
Less transfer to deferred capital contributions for approved expenditures *[note 13]*	**(29,077)**	(21,055)
Balance, end of year	**24,770**	45,497

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:

[000s]	**2007** $	**2006** $
Balance, beginning of year	**315,187**	315,573
Restricted grants for housing projects	**3,544**	1,175
Contribution from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve *[note 12]*	**29,077**	21,055
Less amortization of deferred capital contributions	**(26,601)**	(22,616)
Balance, end of year *[note 19[a]]*	**321,207**	315,187

14. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets consist of the following:

[000s]	**2007** $	**2006** $
Housing projects *[note 6]*	**1,363,379**	1,351,312
Other capital assets *[note 7]*	**526,426**	422,433
Less project financing *[note 11]*	**(1,082,780)**	(1,010,440)
Less deferred capital contributions *[note 13]*	**(321,207)**	(315,187)
	485,818	448,118

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

[000s]	2007 $	2006 $
Acquisition of housing projects *[note 6]*	**56,736**	33,567
Purchase of other capital assets *[note 7]*	**138,132**	134,974
Repayment of project financing *[note 11]*	**33,665**	36,469
Amortization of deferred capital contributions *[note 13]*	**26,601**	22,616
Less new project financing assumed *[note 11]*	**(106,922)**	(49,601)
Less deferred financing costs *[note 11]*	**917**	—
Less restricted grants for housing projects *[note 13]*	**(3,544)**	(1,175)
Less transfer from capital asset replacement reserve *[note 12]*	**(29,077)**	(21,055)
Less depreciation of housing projects and other capital assets *[notes 6 and 7]*	**(78,808)**	(70,856)
	37,700	84,939

15. 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.

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.

Net assets internally restricted consist of the following:

[000s]	**Unrestricted Contingency Reserve Fund** $	**Don Mount Court Reserve Fund** $	**Regent Park Development Reserve Fund** $	**2007 Total** $	**2006 Total** $
Transfers from operations for the year consist of					
Operating surplus transfer	**—**	**—**	**13,000**	**13,000**	17,070
Transfer to reserve	**(15,000)**	**—**	**15,000**	**—**	—
Investment income earned	**4,621**	**398**	**1,492**	**6,511**	608
Market value adjustments for investments held	**(4,802)**	**(215)**	**(1,845)**	**(6,862)**	6,489
Transfers to unrestricted surplus for expenses incurred	**—**	**—**	**—**	**—**	(14,120)
Glenmaple financing	**(270)**	**—**	**—**	**(270)**	291
Net transfers for the year	**(15,451)**	**183**	**27,647**	**12,379**	10,338
Balance, beginning of year	**95,553**	**592**	**19,399**	**115,544**	105,206
Balance, end of year	**80,102**	**775**	**47,046**	**127,923**	115,544

16. SUBSIDIES

TCHC administers various programs on behalf of the City. TCHC incurred costs of $9,755,000 [2006 - $10,421,000] for the commercial rent supplement program, $12,019,000 [2006 - $9,840,000] for the strong communities program, $448,000 [2006 - $75,000] for the housing allowance pilot program, $1,306,000 [2006 - $48,000] for the housing allowance roll-out program and $18,013,000 [2006 - $17,684,000] for the community sponsored program. Subsidies offsetting these net costs received from the City have been recorded in revenue.

The housing program subsidies are based on mortgage principal and interest and municipal taxes payments for housing projects funded under the TCHC Operating Agreement with the City. For these projects, the municipal tax expense for 2007 totalled $99,275,000 [2006 - $103,405,000] and the mortgage principal and interest payments for 2007 totalled $80,678,000 [2006 - $81,563,000].

17. COMMITMENTS

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

[000s]	$
2008	3,952
2009	3,952
2010	3,763
2011	3,123
2012	2,344
Thereafter	17,850
	34,984

[b] On TCHC's behalf, the City enters 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. RESIDENTIAL TENANCIES ACT

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

19. CONTINGENCIES

[a] TCHC will be liable to repay certain CMHC and City loans, not yet formally forgiven, amounting to $5,451,000 and $1,640,000 [2006 - $5,441,000 and $3,649,000], 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 that 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, 2007, 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 impact on TCHC's financial position.

20. FINANCIAL INSTRUMENTS

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 that fixes the interest rate over the term of the debt.

TCHC also minimizes its exposure to unfavourable interest rates as its other debts are financed at fixed rates with maturities scheduled over a number of years.

TCHC is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. TCHC has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into various energy-related purchase and sales contracts that fixes a portion of the wholesale price over the term of the contract. All contracts entered into in 2007 expired on December 31, 2007.

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.

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

21. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.