Toronto Community Housing Corporation

Consolidated Financial Statements
December 31, 2014

June 1, 2015

Independent Auditor's Report

To the Shareholders 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 statements of financial position as at December 31, 2014 and the consolidated statements of operations, changes in net assets, remeasurement gains and losses 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 public sector accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toronto Community Housing Corporation and its subsidiaries as at December 31, 2014 and the results of their operations, their remeasurement gains and losses and their cash flows for the year then ended in accordance with Canadian public sector accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto Community Housing Corporation

Consolidated Statement of Financial Position

As at December 31, 2014

(in thousands of dollars)

	2014 $	2013 $
Assets		
Current assets		
Cash	29,137	29,026
Restricted cash (note 3(b))	82,002	107,256
Investments (note 3(a))	24,915	716
Restricted investment (notes 3(a) and 3(f)(ii))	25,000	-
Accounts receivable (notes 3(e), 5(a), 13(b)(v) and 22)	67,543	75,027
Loans receivable (note 4(a)(ii))	676	676
Prepaid expenses	5,127	6,401
	234,400	219,102
Loans receivable (notes 4(a)(i) and (e))	14,250	14,518
Grants receivable (note 13(b)(i), (ii), (iii) and (iv))	17,217	13,491
Equity investments (note 4)	28,364	15,541
Investments for capital asset replacement reserve (notes 3(a) and 12)	37,132	34,829
Investments for internally restricted purposes (note 3(a))	144,938	163,069
Investments for capital expenditures under restrictions with lenders (notes 3(a) and 3(f)(i))	43,649	11,903
Receivable from the City of Toronto (note 5(b))	21,325	26,325
Housing projects acquired or developed (notes 6 and 19)	1,574,121	1,562,347
Improvements to housing projects (notes 7 and 19)	943,955	899,181
Guaranteed equity housing project (note 8)	8,679	8,946
Prepaid lease	1,078	1,135
Total assets	3,069,108	2,970,387

The accompanying notes are an integral part of these consolidated financial statements.

Toronto Community Housing Corporation
Consolidated Statement of Financial Position ...*continued*
As at December 31, 2014

(in thousands of dollars)

	2014 $	2013 $
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 8 and 22)	141,120	114,507
Tenants' deposits and rents received in advance	12,892	12,334
Deferred revenue	3,771	854
Current portion of deferred revenue on long-term leases	71	71
Current portion of project financing (note 11)	79,723	70,253
	237,577	198,019
Capital asset replacement reserve (notes 3(a) and 12)	37,132	37,427
Deferred revenue on long-term leases	1,045	1,115
Employee benefits (note 10)	81,402	77,439
Project financing (note 11)	1,244,098	1,236,040
Interest rate swap (note 11(c)(i))	2,732	3,278
Debenture loans (note 11(f)(iii))	15,637	21,711
Deferred capital contributions (note 13(a))	521,771	545,538
Total liabilities	2,141,394	2,120,567
Surplus		
Share capital		
Authorized		
Issued 100 common shares	1	1
Internally restricted funds (notes 3(a) and 15)	170,037	186,836
Contributed surplus (note 6)	5,136	-
Unrestricted surplus	751,702	663,414
Accumulated remeasurement gains (losses)	838	(431)
Total net assets	927,714	849,820
	3,069,108	2,970,387

Bank loan (note 9)

Contingencies (note 16)

Commitments (note 20)

Toronto Community Housing Corporation

Consolidated Statement of Operations

For the year ended December 31, 2014

(in thousands of dollars)

	2014 $	2013 $
Revenue		
Subsidies (note 5(c))	228,790	231,036
Rent		
Residential	288,674	287,141
Commercial	14,065	13,839
Amortization of deferred capital contributions (note 13(a))	47,220	45,908
Parking, laundry and cable fees	16,663	16,792
Investment income	10,354	10,051
External sales (note 23)	-	1,398
Joint venture income (note 4)	35,090	621
Gain on easement (note 17)	625	700
Gain on sale of housing projects (note 18(i))	29,508	12,324
Gain on sale of land (note 18(ii))	3,432	-
Gain on sale of capital assets	23	51
Plant	1,330	1,125
Other	2,434	4,160
	678,208	625,146
Expenses		
Operating and maintenance	278,952	262,456
Municipal taxes	17,357	15,071
Depreciation and write-downs (note 6)	137,960	128,930
Interest (notes 9 and 11)	69,913	66,792
Administration	63,746	61,185
Residential services	9,441	8,917
Rent supplement program (note 5(c))	24,859	25,271
Plant	2,140	1,495
Loss from guaranteed equity housing project (note 8)	534	402
	604,902	570,519
Excess of revenue over expenses for the year	73,306	54,627

The accompanying notes are an integral part of these consolidated financial statements.

Toronto Community Housing Corporation

Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2014

(in thousands of dollars)

2014	Share capital $	Internally restricted funds $	Contributed surplus $	Unrestricted surplus $	Accumulated remeasurement gains (losses) $	Total $
Net assets - January 1, 2014	1	186,836	-	663,414	(431)	849,820
Excess of revenue over expenses for the year	-	-	-	73,306	-	73,306
Net change in unrealized gains on revaluation of interest rate swap (note 11(c)(i))	-	-	-	-	546	546
Net change in unrealized losses on investments	-	-	-	-	(1,094)	(1,094)
Net change in unrealized gains (losses) on investments for internally restricted purposes	-	(1,086)	-		1,086	-
Net change in unrealized loss on investments related to externally restricted reserve				(731)	731	-
Change in contributed surplus (note 6)	-	-	5,136	-	-	5,136
Change in internally restricted surplus (note 15)	-	(15,713)	-	15,713	-	-
Net assets - December 31, 2014	1	170,037	5,136	751,702	838	927,714

2013	Share capital $	Internally restricted funds $	Unrestricted surplus $	Accumulated remeasurement gains (losses) $	Total $
Net assets - January 1, 2013	1	50,320	745,303	2,355	797,979
Excess of revenue over expenses for the year	-	-	54,627	-	54,627
Net change in unrealized gains on revaluation of interest rate swap (note 11(c)(i))	-	-	-	1,420	1,420
Net change in unrealized losses on investments	-	-	-	(4,206)	(4,206)
Change in internally restricted surplus (note 15)	-	136,516	(136,516)	-	-
Net assets - December 31, 2013	1	186,836	663,414	(431)	849,820

The accompanying notes are an integral part of these consolidated financial statements.

Toronto Community Housing Corporation

Consolidated Statement of Remeasurement Gains and Losses

For the year ended December 31, 2014

(in thousands of dollars)

	2014 $	2013 $
Accumulated remeasurement gains (losses) - Beginning of year	(431)	2,355
Net change of unrealized gains (losses) attributable to		
Interest rate swap (note 11(c)(i))	546	1,420
Investments	(1,094)	(4,206)
Reallocation to investments for internally restricted purposes	1,086	-
Reallocation to externally restricted reserve	731	-
Net remeasurement gains (losses) for the year	1,269	(2,786)
Accumulated remeasurement gains (losses) - End of year	838	(431)

The accompanying notes are an integral part of these consolidated financial statements.

Toronto Community Housing Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, 2014

(in thousands of dollars)

	2014 $	2013 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	73,306	54,627
Add (deduct): Items not involving cash		
Amortization of deferred capital contributions (note 13(a))	(47,220)	(45,908)
Depreciation and write-downs (note 6)	137,960	128,930
Gain on sale of housing projects (note 18(i))	(29,508)	(12,324)
Gain on sale of land (note 18(ii))	(3,432)	-
Gain on sale of capital assets	(23)	(51)
Imputed interest on loan (note 11)	140	140
Joint venture income (note 4)	(35,090)	(621)
Depreciation of guaranteed equity housing project assets (note 8)	267	266
Employee benefit obligations (note 10(a))	3,963	1,652
	100,363	126,711
Changes in non-cash working capital balances related to operations		
Accounts receivable	9,805	33,903
Receivable from the City of Toronto	5,000	-
Prepaid expenses	1,068	1,622
Prepaid lease	57	55
Accounts payable and accrued liabilities	(4,277)	8,309
Tenants' deposits and rents received in advance	558	21
Deferred revenue	2,917	(586)
Deferred revenue on long-term leases	(70)	(71)
	115,421	169,964
Investing activities		
Decrease in loans receivable (note 4)	268	1,378
Increase in investments and restricted investment (note 3)	(65,440)	(17,515)
Net distributions from joint ventures (note 4)	25,685	566
(Increase) decrease in restricted cash (note 3(b))	25,254	(107,256)
	(14,233)	(122,827)
Capital activities		
Acquisition of housing projects (note 19(a))	(58,800)	(72,094)
Proceeds on sale of capital assets	-	47
Net proceeds on sale of housing projects (note 18)	31,533	13,513
Improvements to housing projects (note 19(b))	(101,148)	(83,942)
	(128,415)	(142,476)
Financing activities		
Borrowing of bank loan (note 9)	-	(4,000)
Decrease in long-term grants receivable (note 13(b))	2,868	434
Deferred financing cost (note 11)	(119)	(478)
New project financing and debenture loans (note 11)	102,120	160,691
Repayment of project financing (note 11)	(90,687)	(111,559)
Contributions for capital asset replacement reserve (note 12)	8,783	8,743
Restricted grants for housing projects	4,373	20,150
	27,338	73,981
Increase (decrease) in cash during the year	111	(21,358)
Cash - Beginning of year	29,026	50,384
Cash - End of year	29,137	29,026

Supplementary cash flow information (note 19)

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1 The corporation and its mission

Toronto Community Housing Corporation 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). TCHC is wholly owned by the City of Toronto (the City). The City includes all organizations that are accountable for administration of their financial affairs and resources to City Council and are controlled by 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 not-for-profit organization 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 not-for-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 not-for-profit housing project, which are developed under a prescribed federal or provincial program, are exempt from residential rent controls.

2 Basis of preparation and summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit 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 (RPDC)
- Toronto Community Housing Enterprises Inc. (TCHE)
- Railway Lands Development Corporation (RLDC)
- Allenbury Gardens Development Corporation (AGDC)
- Regent Park Energy Inc. (RPEI)
- Alexandra Park Development Corporation (APDC)
- Housing Services Inc. (HSI)
- Leslie Nymark Development Corporation

(in thousands of dollars)

These consolidated financial statements also include TCHC's interest in the following joint ventures, which have been accounted for using the modified equity method:

- Dundas and Parliament Development Corporation (DPDC)
- Parliament and Gerrard Development Corporation (PGDC)
- Library District Inc.
- Allenbury Garden Revitalization General Partnership (AGRGP)
- Alexandra Park Phase I Partnership (APIP)

TCHC only administers the funding and operations of Toronto Affordable Housing Fund (TAHF), which in the normal course of its operations, maintains its operations and meets its liabilities from benefits received from sources outside of TCHC, and thus has not been consolidated in these consolidated financial statements.

TCHC formerly held a 35% interest in Innoserv Inc., an end-to-end provider of a suite of solar energy services to the social housing sector, which includes site assessments, implementations and maintenance of roof top solar systems. TCHC accounts for its investment in Innoserv Inc. using the modified equity method. As at December 31, 2013, this investment was recorded at $nil given that there was a shareholders' deficiency. Innoserv Inc. was dissolved on May 6, 2014.

TCHC is a member of Regent Park Arts Non-Profit Development Corporation (RPAD), which is a non-share joint venture that in the normal course of its operations, maintains its operations and settles its liabilities from benefits received from sources outside of TCHC, and thus has not been consolidated in these consolidated financial statements.

All intercompany transactions and balances have been eliminated.

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

(in thousands of dollars)

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 and restricted cash	loans and receivables	amortized cost
Investments	portfolio investments	fair value
Accounts, loans and other receivables	loans and receivables	amortized cost
Grants receivable	loans and receivables	amortized cost
Accounts payable and accrued liabilities	financial liabilities	amortized cost
Tenants' deposits and rent received in advance	financial liabilities	amortized cost
Bank loan	financial liabilities	amortized cost
Project financing	financial liabilities	amortized cost
Interest rate swap	derivatives	fair value
Debenture loans	financial 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 are determined based on the latest bid prices to reflect fair value.
- Investments in pooled funds are valued at their reported net asset value per unit to reflect fair value.

Transactions are recorded on a trade date basis. Transaction costs are expensed as incurred.

Investment income includes interest, pooled fund distributions and realized gains and losses. Investment income earned on externally and internally restricted funds is credited directly to the externally and internally restricted funds on the consolidated statement of financial position. Unrealized gains or losses are recorded in the consolidated statement of remeasurement gains and losses unless related to externally restricted funds, in which case, the unrealized gains or losses adjust the value of the offsetting reserve recorded on the consolidated statement of financial position.

Investment income and fair value adjustments generated from the investments that were apportioned to various internally restricted funds will be allocated as follows:

- Investment income and both realized and unrealized gains will be allocated to funds with deficit positions.
- Unrealized loss will be allocated to funds with surplus positions, unless all funds are in deficit positions.

Investments in joint ventures

Investments in joint ventures are accounted for using the modified equity method.

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

(in thousands of dollars)

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 on the consolidated statement of remeasurement gains and losses.

TCHC currently employs interest rate swaps to convert its variable interest rate on a floating rate loan facility to a fixed interest rate. Interest rate swaps are employed in order to eliminate variability in future cash flows. The swaps are measured at fair value until the interest rate swap is settled.

Financing costs

Financing costs of the debenture loans and project financing 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.

Housing projects acquired, developed and improvements to housing projects

Housing projects acquired and developed are recorded at cost less accumulated depreciation. Cost includes the original cost of land, buildings, 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 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 value over any residual value is recognized as an expense in the consolidated statement of operations. Any write-downs are not reversed.

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 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.

(in thousands of dollars)

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 come due;

- the costs of terminating 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 amortized over the expected average remaining service lives;

- employee future benefit liabilities are discounted using the average expected borrowing rate of TCHC over the period during which benefits are expected to be earned;

- past service costs from plan amendments are expensed as incurred; and

- the costs of 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 accordance with PSAS 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, the allowance for uncollectible accounts receivable and contingent liabilities. Actual results could differ from those estimates.

3 Investments, restricted investments and restricted cash

On October 9, 2014, the Board of Directors approved an investment fund allocation, relating to internally restricted reserves (note 15). Investment income and fair value adjustments generated from the investments that were apportioned to various internally restricted funds will be allocated based on the TCHC accounting policy (note 2).

(in thousands of dollars)

a) Investments and restricted investments consist of the following:

					2014
	Investments $	**Restricted investments $**	**Investments for capital asset replacement reserve $**	**Investments for internally restricted purposes $**	**Investments for capital expenditure under restrictions with lenders $**
Term deposits	2,228	-	-	-	-
Fixed income securities (notes 3(c) and (d))	22,687	-	37,132	144,938	-
Capital expenditures reserves held in trust by a lender for the refinanced properties (notes 3(f)(i) and (g)(i))	-	-	-	-	15,823
Capital expenditures reserves held in trust by a lender for TCHC properties (note 3(g)(ii))					27,826
Externally restricted investments for capital expenditures for TCHC properties (note 3(f)(ii))	-	25,000	-	-	-
Total investment	24,915	25,000	37,132	144,938	43,649
Accrued interest income (note 3(e))			-	1,701	
Restricted cash (note 3(b))			-	23,398	
Capital asset replacement reserve (note 12)			37,132		
Internally restricted funds (note 15)				170,037	

(in thousands of dollars)

				2013
	Investments $	**Investments for capital asset replacement reserve $**	**Investments for internally restricted purposes $**	**Investments for capital expenditure under restrictions with lenders $**
Term deposits	716	-	-	-
Fixed income securities (notes 3(c) and (d))	-	34,829	163,069	-
Capital expenditures reserves held in trust by a lender for certain refinanced properties (note 3(f)(i))	-	-	-	11,903
Total investment	716	34,829	163,069	11,903
Accrued interest income (note 3(e))		305	1,431	
Restricted cash (note 3(b))		2,293	22,336	
Capital asset replacement reserve (note 12)		37,427		
Internally restricted funds (note 15)			186,836	

(in thousands of dollars)

b) Restricted cash consists of the following:

	2014 $	2013 $
Externally restricted cash for capital asset replacement reserve	-	2,293
Internally restricted cash for restricted reserves (note 3(a))	23,398	22,336
Externally restricted cash for capital expenditures for TCHC properties (notes 3(f)(ii) and (h))	58,285	82,627
Externally restricted cash for programs of development projects	319	-
	82,002	107,256

c) Investment income and fair value adjustments were apportioned to various restricted funds based on a TCHC accounting policy (note 2). Contributions received and expenditures incurred have been recorded in the funds to which they relate.

d) The fixed income securities consist of corporate and Canadian government fixed income securities with nominal coupon rates between 1.5% and 8.5%, and maturity dates ranging from 2015 to 2049, and are considered to be highly liquid.

e) Included in accounts receivable is $1,701 (note 3(a)) (December 31, 2013 - $1,736) of accrued interest income, which is included in internally restricted funds (December 31, 2013 - externally and internally restricted funds).

f) Pursuant to a financing agreement made as of October 18, 2013, TCHC completed a financing transaction with a lender for $154,703 (note 11(e)(i)).

i) As at December 31, 2014, the lender has restricted investments of $12,899 (note 3(a)) (December 31, 2013 - $11,903), which are invested in Canadian money market funds held in trust by a lender and are considered highly liquid. The investments are to be used to fund capital expenditures for refinanced properties. The restricted investments included $11,821 (note 11(e)(i)) that TCHC received at the inception of the financing transaction in 2013, deposits of $1,046 (December 31, 2013 - $82) of the aggregate annual effective gross income from the refinanced properties, and net investment income of $135, less $103 capital expenditures recorded since December 1, 2013.

ii) TCHC invested $25,000 (December 31, 2013 - $nil) in restricted investments (note 3(a)) and $25,667 (December 31, 2013 - $82,627) in restricted cash (note 3(b)), of the $82,504 cash received from a lender (note 11(e)(i)) at inception for capital expenditures. TCHC subsequently earned $717 (December 31, 2013 - $123) of net investment income since the inception of the refinancing transaction, and has spent $32,554 on capital expenditures in the year. The investments are invested in term deposits and are considered highly liquid.

(in thousands of dollars)

g) Pursuant to a financing agreement made as of October 27, 2014, TCHC finalized a financing transaction with a lender for $49,710 (note 11(e)(ii)). As at December 31, 2014, the restricted investment of $30,750 is held in trust by the lender and invested in Canadian money market funds that are considered highly liquid. The restricted investment includes the following:

i) $2,882 restricted investment that TCHC received in the year, deposits of $42 of the gross income of refinanced properties since November 1, 2014. The investments are to be used to fund capital expenditures for the refinanced properties.

ii) $27,805 restricted investment received from a lender for capital expenditures for TCHC properties, including net investment income of $21 earned during the year ended December 31, 2014, which will be released to TCHC when the $82,504 (note 11(e)(i)) restricted for capital expenditures for TCHC's properties is reduced to $16,500 after deducting actual and committed capital expenditures. As at December 31, 2014, the balance has been reduced by capital expenditures of $32,554 (note 3(f)(ii)) to $49,950.

h) Pursuant to a financing agreement dated December 1, 2014, TCHC finalized a financing transaction with a lender for $52,411 (note 11(b)(ii)). TCHC restricted $32,618 (December 31, 2013 - $nil) in cash (note 3(b)), which included $32,610 funds received from a lender (note 11(b)(ii)) as at December 31, 2014 for capital expenditures for TCHC properties and $33 net investment income earned since inception of the refinancing transaction, net of $25 financing cost incurred (note 11(b)(ii)).

4 Equity investments and loans receivable

	Equity investments		Loans receivable	
	2014 **$**	**2013** **$**	**2014** **$**	**2013** **$**
DPDC (note 4(a)(i))	2,344	2,391	2,472	2,552
PGDC (note 4(a)(ii))	13,784	9,975	676	676
Library District Inc. (note 4(b))	7,677	2,450	-	-
AGRGP (note 4(c))	4,559	725	-	-
APIP (note 4(d))	-	-	-	-
Mortgages receivable (note 4(e))	-	-	11,778	11,966
	28,364	15,541	14,926	15,194

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's interests in the co-tenancy of the development, which operates through a nominee corporation, Dundas and Parliament Development Corporation (DPDC), are determined by the co-tenancy agreement.

(in thousands of dollars)

The following represents the reported financial information of DPDC as at December 31, 2014 and 2013:

	2014 $	2013 $
Total assets	7,450	7,643
Liabilities	2,588	2,898
Co-owners' equity	4,862	4,745
Total liabilities and co-tenant's equity	7,450	7,643
TCHC's equity investment	2,344	2,391
Cash provided by operating activities	331	523
Cash used by financing activities	(451)	(2,397)
Cash used by investing activities	-	(55)

Change in TCHC's equity investment in DPDC is as follows:

	2014 $	2013 $
Balance - Beginning of year	2,391	2,896
Net income	152	842
Contributions	165	-
Distributions	(364)	(1,347)
Balance - End of year	2,344	2,391

TCHC has entered into a loan agreement with DPDC to finance the construction of condominium buildings. The construction loans are repayable on sales closing of condominium units and are guaranteed by the co-tenancy partners as well as other affiliated companies of each of the co-tenant partners. Amounts are advanced under five separate credit term facilities and the availability of each loan will not be extended beyond the third anniversary of the initial drawdown for each loan unless the one-year extension at the option of DPDC is consented to by TCHC. As at December 31, 2014, no amounts were advanced under these facilities.

The co-tenancy has a $500 revolving demand facility and a $2,500 non-revolving loan with TCHC, which consists of three credit facilities:

1. Amounts drawn on the $500 revolving demand facility bear interest at a variable interest rate of prime rate plus 0.50% per annum payable 5 days following demand of payment.

(in thousands of dollars)

2. Amounts drawn on the $2,000 non-revolving fund loan is payable on the tenth anniversary date of the agreement dated August 31, 2010. The non-revolving fund loan has a fixed interest rate of 6% per annum.

3. Amounts drawn on the $500 non-revolving fund loan is payable on the earlier of: (i) the date of the drawdown of the construction financing for the construction of the condominiums for Block 14 of the Regent Park Revitalization project; and (ii) the tenth anniversary of the agreement dated August 31, 2010. The credit facility bears a fixed interest rate at 6% per annum.

The three credit facilities are secured by the co-tenancy's land and assets and are guaranteed by RPDC and the co-tenant partner. As at December 31, 2014, TCHC has advanced $2,472 (December 31, 2013 - $2,552) to DPDC.

ii) TCHC's wholly owned subsidiary, RPDC, has also entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. RPDC and the developer's interest in the co-tenancy of the development, which operates through a nominee corporation, Parliament Gerrard Development Corporation (PGDC), is determined by the co-tenancy agreement.

The following represents the reported financial information of PGDC as at December 31, 2014 and 2013:

	2014 $	2013 $
Total assets	106,947	136,487
Liabilities	80,240	116,729
Co-tenants' equity	26,707	19,758
Total liabilities and co-tenants' equity	106,947	136,487
TCHC's equity investment	13,784	9,975
Cash provided (used) by operating activities	60,628	(60,016)
Cash provided (used) by financing activities	(52,184)	59,986
Cash used by investing activities	(8,947)	(211)

Change in TCHC's equity investment in PGDC is as follows:

	2014 $	2013 $
Balance - Beginning of year	9,975	10,020
Net income (loss)	19,532	(78)
Contributions	812	6,945
Distributions	(16,535)	(6,912)
Balance - End of year	13,784	9,975

(in thousands of dollars)

TCHC has entered into a loan agreement with PGDC to finance the pre-development costs of condominium buildings, which is due on demand. The loan facility to PGDC is guaranteed by the co-tenancy partners as well as other affiliated companies of each of the co-tenant partners. Amounts are advanced under a non-revolving term facility totalling $5,000 and earn interest at the bank's prime rate plus 0.50%. As at December 31, 2014, TCHC has advanced $676 (December 31, 2013 - $676) to PGDC.

On July 30, 2013, PGDC entered into a credit agreement with lenders to finance in part the development and construction costs of a development project. The total available credit facilities are $90,042 with certain conditions. The project land is pledged up to a maximum of $100,000 in favour of the administrative agent of the credit agreement and a guarantee of $44,771. TCHC is the obligor of the PGDC credit agreement, along with the other obligors, in the event of default by PGDC, without securing the credit facility with any of TCHC's assets.

iii) TCHC's wholly owned subsidiary, RPDC, previously entered into a joint venture agreement with two members for the construction of the Daniels Spectrum, formerly known as Regent Park Arts and Cultural Centre (RPACC). RPDC and the two members, each hold equal non-share interests, and have incorporated the Regent Park Arts Non-Profit Development Corporation (RPAD) to construct Daniels Spectrum, which was completed in 2013. TCHC exercises significant influence, but not joint control over RPAD by way of its interest in the joint venture. RPAD is a not-for-profit corporation that is tax-exempt.

On August 1, 2012, TCHC entered into a ground lease with RPAD of the land for 50 years less a day, on which Daniels Spectrum has been built, for an annual fee of one dollar plus additional rent for taxes and utilities.

Beginning on August 1, 2012, Artscape, one of the members of the joint venturers, leased the premises from RPAD based on the terms noted above. In turn, Artscape sublet the property to the tenants. Artscape is responsible for the management and operation of Daniels Spectrum.

On December 6, 2013, RPAD entered into a first leasehold mortgage of $2,750 at a fixed interest rate of 5% per annum with a term of one year and matures in 2020. Security on the loan is the leasehold interest held by RPAD in Daniels Spectrum. TCHC does not provide any security with its assets, except for the assignment of one dollar annual rent to the lender in the event of default. During 2014, RPAD repaid $600 towards the first leasehold mortgage with an outstanding mortgage liability of $2,150 as at December 31, 2014.

b) 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, which operates through a nominee corporation, Library District Inc.

(in thousands of dollars)

The following represents the reported financial information of Library District Inc. as at December 31, 2014 and 2013:

	2014 $	2013 $
Total assets	18,117	69,701
Liabilities	4,127	58,023
Co-tenants' equity	13,990	11,678
Total liabilities and co-tenants' equity	18,117	69,701
TCHC's equity investment	7,677	2,450
Cash provided (used) by operating activities	73,739	(25,017)
Cash provided (used) by financing activities	(59,031)	25,262

Change in TCHC's equity investment in Library District Inc. is as follows:

	2014 $	2013 $
Balance - Beginning of year	2,450	2,570
Net income (loss)	16,121	(120)
Distributions	(14,263)	-
Balance - End of year	4,308	2,450
Gain on sale of land (note 18(ii))	3,369	-
	7,677	2,450

c) On February 5, 2013, TCHC's wholly owned subsidiary, Allenbury Gardens Development Corporation (AGDC), incorporated on December 14, 2012, entered into a partnership agreement with a developer, thus forming Allenbury Gardens Revitalization General Partnership (AGRGP) for the revitalization of certain properties in Allenbury Gardens. AGDC and the development partner have equal interest for contribution up to $900, and receive 70%/30% interest until the point AGDC recovers the development and replacement cost for TCHC's rental units, and receive 30%/70% interest in the partnership thereafter of no less than $2,550. The AGRGP operates through a nominee, Soul Residences Inc., which holds legal title to the real property as a bare trustee for AGDC and the development partner to whom beneficial ownership of the property is then transferred on closing.

The 70%/30% interest will reciprocate once TCHC's residential units in the project break even on a cash flow basis.

(in thousands of dollars)

The following represents the reported financial information of AGRGP as at December 31, 2014 and 2013:

	2014 $	2013 $
Total assets	8,292	1,859
Liabilities	1,544	569
Co-tenants' equity	6,748	1,290
Total liabilities and co-tenants' equity	8,292	1,859
TCHC's equity investment	4,559	725
Cash used by operating activities	(6,330)	(944)
Cash provided by financing activities	6,504	1,336
Cash used by investing activities	(433)	(130)

Change in TCHC's equity investment in AGRGP is as follows:

	2014 $	2013 $
Balance - Beginning of year	725	-
Net loss	(715)	(23)
Contributions	4,549	748
Balance - End of year	4,559	725

d) On July 19, 2013, TCHC's wholly owned subsidiary, Alexandra Park Development Corporation (APDC), incorporated on July 16, 2013, has entered into a partnership agreement with a developer, thus forming Alexandra Park Phase I Partnership (APIP), for the revitalization of certain properties in Alexandra Park. APDC and the developer have equal interests in the partnership on the development, which operates through a nominee corporation, Alexandra Park Condominium Residences Inc., which holds legal title to the real property as a bare trustee for APDC and the development partner to whom beneficial ownership of the property is transferred on closing.

The partner funds 100% of predevelopment expenses until the first construction advance, and all costs incurred by the partnership are capitalized in APIP as at December 31, 2014.

e) The mortgages receivable are related to a sales-type lease from 2010 to 2057 for commercial space in a TCHC building. One mortgage has a maturity date of May 11, 2037 and bears interest at 4.877%. The other two mortgages have a term starting on May 11, 2037 and ending on May 11, 2057, and the interest rate will be equal to the negotiated debenture coupon rate on the Debenture Series A bonds (note 11(f)(i)) are due on May 11, 2037.

(in thousands of dollars)

5 Account balance with the City

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 $60,797 (2013 - $74,141) receivable from the City and included in accounts payable and accrued liabilities is $5,032 (2013 - $4,327) 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 the long-term receivable from the City is $4,269 (2013 - $4,269) for sick leave benefits (note 10(f)) and $17,056 (2013 - $17,056) for other employment and post-employment benefits (note 10(h)).

In 2013, $5 million was included in the receivable from the City of Toronto relating to development fees for the purpose of future capital repairs, which TCHC received during 2014.

c) For the year ended December 31, 2014, the City provided gross subsidies of $228,790 (2013 - $231,036), of which $24,859 (2013 - $25,573) pertain to subsidies passed directly through to tenants and are reflected on the consolidated statement of operations as expenditures. Subsidies revenue consists of the following:

	2014 $	2013 $
Garbage levy (i)	2,480	5,100
Operating expense	70,142	71,123
Mortgage principal and interest expense	77,140	77,447
Fire alarm charges (ii)	-	1,908
Municipal tax expense	8,157	9,490
Educational tax saving	8,683	8,513
Administrative fees of a subsidiary	5,651	5,541
Rent supplement subsidies for buildings owned	31,678	26,341
Subsidies not passed through to tenants	203,931	205,463
Housing allowance roll-out program	-	480
Short-term rent support program	-	361
Mental health commission program	-	490
Strong communities program	11,656	11,433
Commercial rent supplement program	13,203	12,809
Subsidies passed through to tenants	24,859	25,573
Total subsidies	228,790	231,036

i) As at September 30, 2014, the City will no longer be providing a garbage levy to TCHC.
ii) As at December 31, 2013, the City will no longer be providing subsidy of fire alarm charges to TCHC.

(in thousands of dollars)

d) Expenditures incurred with the City include $41,680 (2013 - $37,472) for water and waste, $16,752 (2013 - $15,071) for property taxes and $1,703 (2013 - $1,715) for the mortgage interest charges paid to the City. 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 $13,203 (2013 - $12,809) for the commercial rent supplement program, $11,656 (2013 - $11,433) for the strong communities program, $nil (2013 - $480) for the housing allowance roll-out program, $nil (2013 - $361) for the short-term rent support program and $nil (2013 - $490) for the mental health commission program. These amounts, totalling $24,859 (2013 - $25,573), are included in the rent supplement programs expense.

Other housing program subsidies received from the City are based on mortgage principal and interest and municipal tax payments for housing projects funded under a TCHC Operating Agreement with the City and have been recorded in subsidies revenue. For these projects, the municipal tax expense for 2014 was $8,157 (2013 - $26,461 before tax exemptions of $16,971 leaving a net total of $9,490), fire alarm charges was $nil (2013 - $1,908) and the mortgage principal and interest payments for 2014 totalled $77,140 (2013 - $77,447). TCHC also received rent supplements of $31,678 (2013 - $26,341) for buildings it owns, which have been recorded as subsidies revenue.

For the financial years ending 2009 to 2014, TCHC incurred $147,133 (2013 - $147,133) in expenditures related to the Social Housing Retrofit and Renovation Program (SHRRP), of which TCHC received $147,133 (2013 - $147,133) in funding from the City.

e) The City provided funds that it received under Section 37 of the Planning Act to TCHC for capital improvements in specific developments, including design work, associated labour costs, and capital maintenance. These funds will not be used to fund TCHC's State of Good Repair (SOGR) projects. The cost incurred under Section 37 projects in 2014 was $306 (2013 - $414).

6 Housing projects acquired or developed

Housing projects acquired or developed consist of the following:

						2014
	Opening cost $	**Net additions (disposals and write-offs) $**	**Completed during the year $**	**Closing cost $**	**Accumulated depreciation $**	**Net book value $**
Land	374,893	3,997	4,405	383,295	-	383,295
Buildings	1,742,498	(1,437)	67,297	1,808,358	(738,451)	1,069,907
Plant	33,806	-	4,791	38,597	(5,402)	33,195
Housing projects under construction	106,715	57,502	(76,493)	87,724	-	87,724
	2,257,912	60,062	-	2,317,974	(743,853)	1,574,121

(in thousands of dollars)

						2013
	Opening cost $	Net additions (disposals and write-offs) $	Completed during the year $	Closing cost $	Accumulated depreciation $	Net book value $
Land	373,249	(246)	1,890	374,893	-	374,893
Buildings	1,692,740	3,734	46,024	1,742,498	(691,343)	1,051,155
Plant	33,806	-	-	33,806	(4,222)	29,584
Housing projects under construction	100,543	54,086	(47,914)	106,715	-	106,715
	2,200,338	57,574	-	2,257,912	(695,565)	1,562,347

As at December 31, 2014, the additions of housing projects acquired or developed include capitalized interest of $2,049 (2013 - $3,291) and the net book value of housing projects acquired or developed including a contributed property at a fair value of $5,136.

As at December 31, 2014, predevelopment costs totalling $3,591 were written off. These pre-development costs related to completed housing projects that have been sold by TCHC to third parties. The proceeds of these sales have been used to fund the construction of new TCHC residential buildings.

7 Improvements to housing projects

Improvements to housing projects consist of the following:

					2014
	Opening cost $	Net additions (disposals and write-offs) $	Closing cost $	Accumulated depreciation $	Net book value $
Improvements to land and buildings	1,259,392	119,709	1,379,101	(474,248)	904,853
Furniture and equipment	135,093	7,086	142,179	(103,132)	39,047
Leasehold improvements	2,953	2	2,955	(2,900)	55
	1,397,438	126,797	1,524,235	(580,280)	943,955

(in thousands of dollars)

					2013
	Opening cost $	Net additions (disposals and write-offs) $	Closing cost $	Accumulated depreciation $	Net book value $
Improvements to land and buildings	1,197,969	61,423	1,259,392	(402,640)	856,752
Furniture and equipment	125,653	9,440	135,093	(92,774)	42,319
Leasehold improvements	2,932	21	2,953	(2,843)	110
	1,326,554	70,884	1,397,438	(498,257)	899,181

As at December 31, 2014, improvements to housing projects include assets under capital leases with a carrying value of $9,607 (2013 - $10,932).

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 statement of financial position as a housing project; therefore, when a unit is repurchased, no gain or loss is recorded. As at December 31, 2014, an obligation is recorded at $13,414 (2013 - $14,389) and is included in TCHC's accounts payable and accrued liabilities in the consolidated statement of financial position. The fair value of this obligation is not determinable, as there are no defined repayment terms.

Net proceeds received 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 on termination of the project in 2042 or earlier.

The guaranteed equity housing project was required to operate for a minimum of 20 years since its inception in 1992. TCHC repurchased nine units during 2014 and holds eighteen repurchased units as at December 31, 2014.

The guaranteed equity housing project's assets consist of the following:

	January 1, 2014 $	Net change during the the year $	December 31, 2014 $
Land	1,216	-	1,216
Building	13,058	-	13,058
	14,274	-	14,274
Less: Accumulated depreciation	(5,328)	(267)	(5,595)
	8,946	(267)	8,679

(in thousands of dollars)

	January 1, 2013 $	Net change during the the year $	December 31, 2013 $
Land	1,216	-	1,216
Building	13,058	-	13,058
	14,274	-	14,274
Less: Accumulated depreciation	(5,062)	(266)	(5,328)
	9,212	(266)	8,946

The operating deficit from the guaranteed equity housing project included in the consolidated statement of operations consists of the following:

	2014 $	2013 $
Sundry revenue	19	28
Amortization of deferred capital contributions	2	2
	21	30
Depreciation	267	266
Accretion of repurchase obligation	68	28
Operating, marketing and selling expenses	220	138
	555	432
Loss for the year	(534)	(402)

9 Bank loan

As at December 31, 2014, TCHC has a committed revolving credit facility of $200,000 (2013 - $200,000) that is available for short-term advances and letters of credit. Short-term advances are available by way of bankers' acceptances (BAs), with standby charges of 0.25% and interest charges at the bank's BA rate plus 1.10% for the year ended December 31, 2014. As at December 31, 2014 and December 31, 2013, TCHC did not draw down any short-term advances. There are outstanding letters of credit of $1,943 (2013 - $6,515), which reduce the amount available under this facility.

	2014 $	2013 $
Standby charges	477	434
Interest expense	74	507
	551	941

(in thousands of dollars)

10 Employee benefits

a) Employee benefits liabilities of TCHC

	2014 $	2013 $
Workers' Safety and Insurance Board (WSIB) obligation (note 10(e))	15,500	15,011
Sick leave benefits (note 10(f))	12,564	12,057
Severance/termination benefits (note 10(g))	1,320	1,250
Other employment and post-employment benefits (notes 10(h) and 10(j))	23,341	22,788
Unamortized actuarial loss	(1,788)	(1,912)
Other benefits	50,937	49,194
Supplementary employee retirement plan (SERP) (notes 10(i) and 10(j))	30,465	28,245
Employee benefits	81,402	77,439

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

	SERP		Other benefits	
	2014 $	2013 $	2014 $	2013 $
Accrued benefit obligation	26,433	32,050	52,725	51,106
Plan assets	(1,293)	(1,192)	-	-
Unamortized actuarial gain (loss)	5,325	(2,613)	(1,788)	(1,912)
	30,465	28,245	50,937	49,194
Period of amortization for actuarial loss (years)	5	4	12	12

(in thousands of dollars)

b) Continuity of TCHC's accrued benefit liabilities

	SERP		Other benefits	
	2014 $	2013 $	2014 $	2013 $
Balance - Beginning of year	28,245	26,636	49,194	47,716
Current service cost	822	816	1,548	1,671
Interest cost	1,464	1,265	1,227	876
Benefits paid	-	-	(1,409)	(1,561)
Actuarial (gain) loss	(4,671)	3,411	2,165	2,404
Funding contributions	(720)	(1,270)	-	-
Unamortized actuarial gain (loss)	5,325	(2,613)	(1,788)	(1,912)
Balance - End of year	30,465	28,245	50,937	49,194

Accrued benefit liabilities related to terminations

	2014 $	2013 $
Balance - Beginning of year	1,223	1,158
Current service cost	90	107
Interest expense	56	40
Benefits paid	(76)	(105)
Actuarial (gain) loss	27	50
Funding contribution	-	-
Unamortized actuarial (gain) loss	(22)	(27)
Balance - End of year	1,298	1,223

c) TCHC's employee benefits expense

	SERP		Other benefits	
	2014 $	2013 $	2014 $	2013 $
Current service cost	822	816	1,548	1,671
Interest cost	1,464	1,265	1,227	876
Amortization of actuarial loss	654	798	377	492
	2,940	2,879	3,152	3,039

(in thousands of dollars)

d) Non-pension benefits payments

During the year, TCHC made non-pension benefits payments of approximately $1,409 (2013 - $1,561) directly to employees and retirees.

e) Workplace safety and insurance obligation

TCHC and its subsidiaries 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.

The actuarial extrapolation of WSIB's benefit plan liabilities as at December 31, 2014 is based on an extrapolation of WSIB's statement of liabilities as at December 31, 2013 and 2012.

f) Liability for sick leave benefits

The accrued benefit obligation as at December 31, 2014 is based on the most recent actuarial valuation that was completed as at December 31, 2012. 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 both vested and unvested amounts that could be paid to bargaining unit employees on termination. As at December 31, 2014, 861 (2013 - 861) unionized employees are eligible for sick benefits on retirement.

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, as at December 31, 2014, a receivable from the City has been set up equal to the liability of the former THC of $4,678 (2013 - $4,678), less $409 (2013 - $409), which is an amount funded internally by TCHC (note 5(b)). At the time of amalgamation of Metropolitan Toronto Housing Corporation, a long-term disability obligation was transferred to TCHC from the City. A liability of $1,217 was recorded as at December 31, 2014 (2013 - $1,321).

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 that could be taken in cash by them on termination.

The accrued benefit obligation as at December 31, 2014 is based on the extrapolation of the most recent actuarial valuation that was completed as at December 31, 2012.

(in thousands of dollars)

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 are provided thereafter.

The accrued benefit obligation as at December 31, 2014 is based on the extrapolation of the most recent actuarial valuation that was completed as at December 31, 2012.

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. As at December 31, 2014, an amount of $17,056 (2013 - $17,056), representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City (note 5(b)).

i) Other plans

i) SERP

In 2006, TCHC established the 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 at 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 Metropolitan 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 his or her pension to OMERS.

The most recent full actuarial valuation was completed as at December 31, 2014.

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, 2014 contribution rates were 9% to 14.6% (2013 - 9% to 14.6%). Total employee contributions for the year ended December 31, 2014 amounted to $9,317 (2013 - $8,084). Total employer contributions for the year ended December 31, 2014 amounted to $9,317 (2013 - $8,084) and are included in administration expenses on the consolidated statement of operations.

(in thousands of dollars)

j) Actuarial assumptions

The accrued benefit obligation is based on the most recent actuarial valuation extrapolated to the current reporting period. The most recent full actuarial valuation performed for SERP was as at December 31, 2014. The most recent full actuarial valuation for long-term disability benefits was performed as at December 31, 2014 and all other benefits was performed as at December 31, 2012 and extrapolated the results to December 31, 2014.

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	
	2014 %	2013 %	2014 %	2013 %
Discount rates for benefit obligation				
Post-retirement and sick leave	-	-	4.30	4.30
Post-employment	-	-	3.40	3.40
Pension	4.50	4.50	-	-
Discount rates for benefit costs				
Post-retirement and sick leave	-	-	4.30	2.70
Post-employment	-	-	3.40	3.40
Pension	4.50	4.00	-	-
Rate of compensation increase	3.00	3.00	3.00	3.00
Inflation rate	2.00	2.00	2.00	2.00
Health care inflation - Select	n/a	n/a	6.13	6.30
Health care inflation - Ultimate	n/a	n/a	4.50	4.50
Expected rate of return on plan assets	-	-	n/a	n/a
Actual rate of return on plan assets	0.68	0.45	n/a	n/a

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health-care benefits was assumed. The rate is assumed to decrease gradually to 4.50% by 2030 and remain at that level thereafter.

(in thousands of dollars)

11 Project financing and debenture loans

Project financing consists of the following:

	2014 $	2013 $
Mortgages payable and loans for capital expenditures:		
Canada Mortgage and Housing Corporation (CMHC) (note 11(a))	295,474	321,899
Long-term loans payable to Infrastructure Ontario (IO) (note 11(e))	200,940	154,170
Other (note 11(d))	283,931	319,085
Long-term loans payable to others (note 11(c))	34,912	40,278
Debenture loans used in project financing (note 11(f))	429,544	423,367
Long-term loans payable to the City (note 11(b))	79,020	47,494
	1,323,821	1,306,293
Less: Current portion	(79,723)	(70,253)
	1,244,098	1,236,040

For the year ended December 31, 2014, interest incurred on long-term debt net of amounts capitalized were $69,362 (2013 - $65,851) and have been recorded in interest expense on the consolidated statement of operations. All mortgages (notes 11(a), (d) and (e)), loans payable to the City (note 11(b)) and the capital leasing facility (note 11(c)(ii)) have their underlying assets pledged as security. The remaining loans are unsecured.

The change in project financing is calculated as follows:

	2014 $	2013 $
Balance - Beginning of year	1,306,293	1,241,133
New project financing	102,120	160,691
Imputed interest on loan	140	140
Debenture proceeds (i)	6,138	16,366
Less:		
Mortgage paydowns on mortgages renewable during the year (note 11(e)(ii))	(19,023)	(60,378)
Mortgage payments	(45,298)	(30,989)
Loans paydowns on refinanced loans with the City (note 11(b)(ii))	(18,371)	-
Loan payments	(7,995)	(20,192)
Deferred financing costs	(183)	(478)
Increase in project financing and debenture loans	17,528	65,160
Balance - End of year	1,323,821	1,306,293

(in thousands of dollars)

i) Debenture proceeds represent bond proceeds that were used in construction projects completed during the year ended December 31, 2014.

Principal repayments are due as follows:

	CMHC (a) $	City (b) $	IO (e) $	Others (c), (d), (f) $	Total $
2015	38,348	2,571	3,718	35,086	79,723
2016	18,760	2,648	3,868	20,803	46,079
2017	19,737	2,729	4,024	21,403	47,893
2018	20,357	2,813	4,186	21,993	49,349
2019	16,822	2,899	4,359	24,646	48,726
2020 and thereafter	181,450	65,384	181,389	629,120	1,057,343
Deferred financing charges on project financing	-	(24)	(604)	(4,664)	(5,292)
	295,474	79,020	200,940	748,387	1,323,821

a) CMHC mortgages bear interest at rates between 2.65% and 11% (2013 - 2.65% and 11%). These mortgages mature between 2015 and 2031.

b) Long-term loans payable to the City consist of the following:

i) TCHC received $5,988 on November 8, 2013 from the City as zero-interest term loans to finance the building renewal and energy retrofit measures of certain properties. The term loans mature on October 1, 2022 and October 1, 2023 and are repayable commencing January 1, 2015. Under the loan agreements, TCHC provided a general security with its assets in the form of a promissory note for $5,988.

ii) TCHC received $52,411 on December 1, 2014 from the City to refinance loans of 55 properties, secured by a promissory note with a financing cost of $25 (note 3(h)) related to the origination of the loan. The loans were provided by way of non-revolving credit facility at a fixed interest rate of 4.5% for a 30-year term. Under the agreement, the proceeds of $19,801 were used to repay the outstanding principal of $18,371 and interest payable of $1,430 of the loans of 55 TCHC properties with maturity dates that ranged from 2017 to 2031, and $32,610 (note 3(h)) were restricted for future capital expenditures.

iii) Other loans from the City bear interest at rates between 2.75% and 4.12% (2013 - 2.75% and 11%). These loans mature between 2026 and 2042.

c) Long-term loans payable to others primarily consist of the following:

i) As at December 31, 2014, TCHC has a non-revolving, 20-year amortizing construction bridge term loan of $32,944 (2013 - $35,440) to assist with the financing of the construction for Phase 1 of its Building Renewal Program, which was completed in 2009.

(in thousands of dollars)

The loan is obtained through one-month BAs and interest is payable at the BA rate plus 80 basis points (the stamping fee). TCHC entered into a 12-year interest rate swap facility in 2006, which effectively fixed the interest rate at 4.55%. This facility is currently available to fix the interest rate exposure on renewals of the loan for the balance of the committed 12-year term, which matures on February 15, 2018.

As at December 31, 2014, the nominal value of the interest rate swap was $32,944 (2013 - $35,440) and is accounted for at fair value resulting in a cumulative unrealized loss of approximately $2,732 (2013 - $3,278), which is recorded as a liability on the consolidated statement of financial position.

ii) 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 leased back to TCHC. Leasing payments started in August 2007 at $253 per month for a period of 96 months. As at December 31, 2014, $1,742 (2013 - $4,611) was outstanding on this facility.

d) Other mortgages bear interest at rates between 2.11% and 12.75% (2013 - 2.11% and 12.75%). These mortgages mature between 2016 and 2048.

e) Long-term loans payable to IO, which is wholly owned by the Province of Ontario consist of the following:

i) On October 18, 2013, TCHC finalized a financing transaction with IO for $154,703, of which $60,378 was used to pay out the maturing mortgages of 18 refinanced properties, $82,504 was used for capital expenditure for properties of TCHC's portfolio (note 3(f)(ii)), and $11,821 capital expenditures reserves held in trust by a lender for the refinanced properties (note 3(f)(i)) were restricted for investment in future capital assets with a useful life of at least 30 years. The financing is provided by way of non-revolving loans of $15,500 and $139,203 that mature on November 1, 2018 and November 2, 2043, respectively. The loan of $15,500 bears interest at a floating rate determined on a monthly basis by IO and the loan of $139,203 was funded in two instalments, of $70,016 and $69,187 at fixed rates of 4.37% and 4.53%, respectively. The loans have monthly principal and interest repayment terms, and are secured by the 18 refinanced properties and a promissory note as at December 31, 2014 (December 31, 2013 - secured by letters of credit of $4,540) (notes 9 and 11(e)(ii)). The loans are subject to financial covenants, which are to be tested at the end of each fiscal year. As at December 31, 2014, TCHC is in compliance with the financial covenants.

ii) On October 27, 2014, TCHC finalized a financing transaction with IO to refinance 15 TCHC properties with mortgages scheduled for renewal in 2014. The financing of $49,710 (note 3(g)) was provided by way of non-revolving loans of $3,418 at a fixed interest rate of 2.33% for a term of 5 years and $46,292 at a fixed interest rate of 3.68% for a term of 30 years. Loan proceeds of $19,023 were used to pay out the maturing mortgages of 15 refinanced properties and $30,687 (notes 3(g)(i) and (ii)) was restricted for investment in future capital assets. The loan of $30,687 was held in trust by the lender, of which $27,805 will be released to TCHC in accordance to the financing agreement (note 3(g)(ii)). The 2014 financing transaction does not require security by letters of credit, and the requirement of letters of credit as security of the 2013 financing transaction was waived. At December 31, 2013, the 2013 financing transaction was secured by $4,540 (note 11(e)(i)) of letters of credit, which were cancelled on November 18, 2014. The loans are subject to financial covenants which are to

(in thousands of dollars)

be tested at the end of each fiscal year. As at December 31, 2014, TCHC is in compliance with the financial covenants.

iii) TCHC incurred financing costs of $691 (2013 - $458) related to the origination and maintenance of the IO funding, of which $604 (2013 - $406) has been deferred and will be amortized over the remaining term of the loans, and $87 (2013 - $52) has been amortized since inception of the financing transaction. Since inception of the financing transaction and for the year ended December 31, 2014, TCHC repaid $2,869 and $2,742 towards the principal of the loans.

The arrangements also required TCHC to deposit 4% of the aggregate annual effective gross income from the properties, including any rent supplement income and affordability payments from the Province of Ontario, the City of Toronto or any other municipality in a held-in-trust account. Since December 1, 2013, TCHC deposited $1,088 (2013 - $82) of the aggregate annual effective gross income from the refinanced properties (notes 3(f)(i) and (g)(i)).

f) 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 on May 11, 2037

As at December 31, 2014, TCHC has used $250,000 (2013 - $250,000) 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 term of the debt. For the year ended December 31, 2014, amortization of $67 (2013 - $64) and interest expense of $12,192 (2013 - $12,192) were recorded.

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

As at December 31, 2014, TCHC has used $184,208 (2013 - $178,070) of this loan for long-term financings of social housing projects. The balance of the loan of $15,792 (2013 - $21,930) is currently available for future long-term financing of social housing projects and related programs of TCHC and its subsidiaries. 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. For the year ended December 31, 2014, amortization of $35 (2013 - $33) and interest expense of $8,916 (2013 - $8,244) were recorded.

(in thousands of dollars)

iii) Debenture loans consist of the following:

			2014
	Project financing $	Debenture loan $	Total $
Proceeds from issuance of debentures	434,208	15,792	450,000
Deferred financing costs	(4,664)	(155)	(4,819)
	429,544	15,637	445,181

			2013
	Project financing $	Debenture loan $	Total $
Proceeds from issuance of debentures	428,070	21,930	450,000
Deferred financing costs	(4,703)	(219)	(4,922)
	423,367	21,711	445,078

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 for non-profit program buildings and contribute annually to the reserve from its operations funding received from the City. 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:

	2014 $	2013 $
Balance - Beginning of year	37,427	34,102
Contributions during the year (i)	8,783	8,743
Investment income	1,845	1,262
Fair value adjustment	(1,074)	(230)
Less: Transfer to deferred capital contributions for expenditures (note 13)	(9,849)	(6,450)
Balance - End of year	37,132	37,427

i) Contributions during the year are recorded as operating and maintenance expenditures.

(in thousands of dollars)

13 Deferred capital contributions

a) Deferred capital contributions represent the unamortized amount of restricted contributions received for the purchase and development 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:

	2014 $	2013 $
Balance - Beginning of year	545,538	556,066
Restricted grants for housing projects	14,200	28,930
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditure (note 12)	9,849	6,450
Less		
Amortization of deferred capital contributions	(47,220)	(45,908)
Disposal of properties with unamortized deferred capital contributions (note 18(i))	(596)	-
Balance - End of year	521,771	545,538

b) As at December 31, 2014, the grants receivable comprises:

	2014 $	2013 $
Provincial affordability housing grants (i)	9,255	9,711
Contributions receivable from Province of Ontario ((ii), (iii), (iv))	7,962	3,780
Balance - End of the year	17,217	13,491

i) Provincial affordability housing grants for the development of three projects are to be paid monthly over 20 years from the date of grant through to various dates in 2029 to 2030 and have been set up as a grant receivable of $9,255 as at December 31, 2014 (2013 - $9,711).

ii) On February 22, 2013, the City signed a contribution agreement for funding of $4,800 from the Province of Ontario to TCHC for developing 40 units for a construction project. As at December 31, 2014, TCHC received $3,888 (2013 - $2,160) of cumulative funding and as at December 31, 2014, an outstanding construction grant receivable of $912 (2013 - $2,640) has been recorded for the remaining outstanding balance. The $4,800 funding, structured as a grant by way of forgivable loan, is to be used solely to fund the development activities of the project and is recorded in deferred capital contributions as at December 31, 2014. The principal balance of the funding is to be reduced by 5% on

(in thousands of dollars)

each anniversary of the date the building is first occupied, until fully forgiven. Under the contribution agreement, TCHC provided a promissory note for $4,800 as security.

iii) As at December 31, 2013, TCHC recorded $1,140 in grants receivable from the Province of Ontario, which is to fund the development activities of a construction project. TCHC received the grant in full in 2014.

iv) On December 22, 2014, the City signed a contribution agreement for funding of $7,050 from the Province of Ontario to TCHC for developing 47 units for a construction project. TCHC expects to receive the grant in full by 2017.

v) On July 11, 2014, TCHC signed a contribution agreement with a registered charitable organization for a funding of $2,000. As at December 31, 2014, TCHC received $1,000 and recorded the remaining $1,000 in accounts receivable, which TCHC expects to receive in full by 2015.

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:

- providing financial support to qualified individuals so that they may purchase eligible homes; and
- providing access to and promoting the availability of long-term affordable ownership housing.

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

Given that TCHC only administers the funding and operations of TAHF and does not have an equity interest in TAHF, it has not been consolidated in these consolidated financial statements.

TAHF provides financial support to qualified individuals so that they may repurchase eligible homes. The loans are outstanding for a period of twenty years from the date of the loan advance unless one of the following instances occur prior thereto: (i) the borrower passes away; (ii) the borrower used the loan for a purpose other than financing the eligible home; (iii) the unit is sold; (iv) the unit is leased out or ceases to be used as the borrower's principle residence; (v) the borrower becomes bankrupt or insolvent; (vi) a writ of execution against the borrower is or becomes binding against the unit; (vii) the borrower provides to TCHC any false or erroneous statements at the time the loan is granted; (viii) the borrower is in default of the loan from the first priority lender or other encumbrance affecting the unit; (ix) the borrower is in default of its obligations to pay taxes, insure, repair, and maintain the unit; and (x) the borrower prepays the entire loan. The loans are secured by a second charge against the eligible unit. In the event that any of the ten instances described above occurs, the borrower must pay TAHF a loan appreciation amount, which is determined based on a percentage of the increase in value of the eligible unit over the original purchase price. The percentage used to determine the capital appreciation amount is the percentage to the original price that the loan presents. The loans, interest, and capital appreciation payments are otherwise forgiven on the twentieth anniversary date. TAHF does not

(in thousands of dollars)

account for the forgiveness of loans until the twentieth anniversary. During the year ended December 31, 2014, TAHF generated appreciation of the loans of $80 (2013 - $65), which was calculated as described above.

Under the terms of agreement signed with the City of Toronto on April 30, 2009, funding including principal and interest shall be paid to the City and all outstanding mortgages shall be assigned to the City on April 30, 2029, unless otherwise determined by the City. As at December 31, 2014, TAHF's assets include cash and loans receivable totalling $6,951 (2013 - $6,851), and the funding received from the City totals $6,595 (2013 - $6,595). The following is TAHF's cash position:

	2014 $	2013 $
Bank balance - Beginning of year	1,874	1,383
Interest earned	25	20
Appreciation on repayments	80	65
Sundry expenses	(5)	(4)
Decrease in prepayments	8	8
(Increase) decrease in loan receivable	(193)	402
Bank balance - End of year	1,789	1,874

15 Internally restricted funds

Internally restricted funds are held for specific purposes as resolved by TCHC's Board of Directors. These funds, and the investment income allocated towards them, are not available for the general operating expenses of TCHC.

On October 29, 2014, the Board of Directors approved an investment fund allocation, relating to internally restricted reserves (note 3). Investment income and fair value adjustments generated from the investments that were apportioned to various internally restricted funds will be allocated based on the TCHC accounting policy (note 2).

(in thousands of dollars)

Internally restricted funds consist of the following:

2014

	Capital risk reserve fund (a) $	State of good repair fund (b) $	Debt service reserve fund (d) $	Sinking fund of public debentures (e) $	Development risk reserve fund (f) $	Working capital reserve fund (g) $	Legal contingencies fund (h) $	Total (note 3(a)) $
January 1, 2014	15,671	42,116	20,371	10,186	45,833	50,928	1,731	186,836
Contributions	-	39,292	-	-	-	-	-	39,292
Net investment income	2,351	-	-	4,751	-	-	37	7,139
Fair value adjustments for investment held	868	-	(380)	231	(855)	(951)	1	(1,086)
Expenditures	-	(62,144)	-	-	-	-	-	(62,144)
December 31, 2014	18,890	19,264	19,991	15,168	44,978	49,977	1,769	170,037

2013

	Capital risk reserve fund (a) $	State of good repair fund (b) $	Regent Park development reserve fund (c) $	Debt service reserve fund (d) $	Sinking fund of public debentures (e) $	Development risk reserve fund (f) $	Working capital reserve fund (g) $	Legal contingencies fund (h) $	Total (note 3(a)) $
December 31, 2012	-	19,252	31,068	-	-	-	-	-	50,320
Transfer in (out)	15,335	-	(31,068)	19,824	9,912	44,603	49,559	1,686	109,851
January 1, 2013	15,335	19,252	-	19,824	9,912	44,603	49,559	1,686	160,171
Contributions	-	31,380	-	-	-	-	-	-	31,380
Net investment income	1,179	902	-	976	488	2,196	2,441	82	8,264
Fair value adjustments for investment held	(843)	(414)	-	(429)	(214)	(966)	(1,072)	(37)	(3,975)
Expenditures	-	(9,004)	-	-	-	-	-	-	(9,004)
December 31, 2013	15,671	42,116	-	20,371	10,186	45,833	50,928	1,731	186,836

(in thousands of dollars)

a) Capital risk reserve fund

The purpose of the internally restricted capital risk reserve fund is to mitigate the building capital risk of TCHC.

b) State of Good Repair fund

The State of Good Repair fund was established in 2011 to set aside the net proceeds received from the sale of stand-alone housing units or any other capital dispositions, with the exception of assets sold in relation to development initiatives to which such funding is required for development projects, to finance the capital repair needs of existing residential buildings. The State of Good Repair fund also includes education tax savings, and recovery of development costs that were previously incurred by TCHC to maintain TCHC's housing stock in a state of good repair in accordance with the instructions from the City.

Contributions received for the years ended December 31, 2014 and 2013 are as follows:

	2014 $	**2013** $
Education tax savings and other	8,905	9,121
Recovery of development cost from the City	-	10,000
Net proceeds received from the sale of stand-alone units (i)	30,387	12,259
	39,292	31,380

i) Net proceeds transferred to State of Good Repair fund was the sale proceeds net of selling costs and mortgage repayments.

c) 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. Effective January 1, 2013, the funds associated with the Regent Park reserve fund were reallocated into the development risk reserve fund (note 15(f)).

d) Debt service reserve fund

The debt service reserve fund is intended to fund debt service requirements for current and future mortgage requirements, in the event of insufficient cash flow from operations.

e) Sinking fund of public debentures

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 of $450,000 (note 11(f)), with $250,000 due in 2037, and $200,000 in 2040. The fund is intended to assist with the repayment of the debentures at maturities.

(in thousands of dollars)

f) Development risk reserve fund

The intent of the fund is to have funds in reserves in the event of unanticipated financial risks associated with development projects.

g) Working capital reserve fund

The working capital reserve fund is to address liquidity risk in the event of insufficient funds for short-term expenditures due to a lack of working capital available.

h) Legal contingencies fund

The legal contingencies fund is to address the legal contingencies given the ongoing litigation matters in relation to TCHC.

16 Contingencies

a) TCHC will be liable to repay certain CMHC, federal, provincial, and City loans, not yet formally forgiven, 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. As at December 31, 2014, the amount of forgivable loans is $95,831 (December 31, 2013 - $87,397).

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, 2014, 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.

c) TCHC has made various claims of insurers with respect to the 200 Wellesley property, which was damaged in a fire in fiscal 2010. Further evaluations of insurance claims that have been submitted or may be submitted in respect of the 200 Wellesley property continue. It is unknown at this time the amounts that may be recovered, and whether a change in such amounts may be material. During 2014, TCHC received a settlement of $95, which was applied against insurance expense included in operating and maintenance expense (2013 - $3,679).

d) TCHC has incurred $1,662 in costs related to repair the damage caused by the ice storm in fiscal 2013. TCHC has received $1,525 from the insurer and $620 from the City in 2014. TCHC has assessed a payable to the insurer and the City in aggregate of $483 as at December 31, 2014.

17 Gain on easement

In 2013, TCHC granted rights to a third party to a permanent surface access easement over its property for a total of $1,250 for access to an adjacent property owned by the third party of which 50% of the proceeds were received in March 2013. The remaining balance for $625 was recognized and received in February 2014, the date that the first building permit was issued for development.

(in thousands of dollars)

18 Gain on sale of housing projects

i) For the year ended December 31, 2014, TCHC sold and finalized fifty-four stand-alone unit transactions for proceeds net of selling costs of $31,533 (2013 - $12,838). The net book value associated with the stand-alone units were $2,621 (2013 - $597) and the deferred capital contributions liability associated with the stand-alone units were $596 (2013 - $83). As a result of the sales, TCHC recognized a gain of $29,508 (2013 - $12,324) for the year ended December 31, 2014 for transactions that were finalized. As at December 31, 2014, there are three stand-alone units under contracts that were signed during the year ended December 31, 2014 with a sale price of $2,252, which are scheduled to close in 2015.

ii) As at December 31, 2014, TCHC recognized a gain of $3,369 on the sale of units of the development project in 2014 related to 50% of land contributed to the joint venture in 2012 (note 4(b)).

19 Supplementary cash flow information

		2014 $	2013 $
a)	Acquisition of housing projects		
	Addition to housing projects	(64,382)	(59,681)
	Change in accrued capital expenditures	5,582	(12,413)
		(58,800)	(72,094)
b)	Improvements to housing projects		
	Additions to improvements to housing projects	(125,998)	(71,166)
	Change in accrued capital expenditures	24,850	(12,776)
		(101,148)	(83,942)
c)	Interest paid during the year	(73,662)	(68,975)

(in thousands of dollars)

20 Commitments

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

	Operating lease $	Other (b) $	Total $
2015	1,762	60,928	62,690
2016	1,093	-	1,093
2017	994	-	994
2018	884	-	884
2019	928	-	928
2020 and thereafter	10,371	-	10,371
	16,032	60,928	76,960

b) As at December 31, 2014, TCHC has commitments of $60,928 to vendors for capital repairs and services to be performed over the next 12 months.

c) On TCHC's behalf, the City and Housing Services Corporation, a provincial government entity, enter into contracts to purchase fixed quantities of natural gas at fixed prices for a percentage of its anticipated future usage. TCHC is only responsible under these arrangements to pay for the volume of natural gas utilized at the fixed price per unit.

21 Capital management

In managing capital, TCHC focuses on liquid resources available for operations and capital expenditures. TCHC's objective is to have sufficient liquidity to fund budgeted operating and capital expenditures. The need for sufficient liquidity is considered in the preparation of an annual budget and in the monitoring of cash flows and actual results compared to budget.

22 Financial instruments, fair value and risk management

Financial instruments

TCHC's financial instruments consist of cash and restricted cash, investments, restricted investments, accounts receivable, loans receivable, grants receivable, receivable from the City, accounts payable and accrued liabilities, tenant deposits and rent received in advance, project financing, debenture loans and an interest rate swap. The fair value of TCHC's investments, restricted investments and the interest rate swap are based on observable inputs or are calculated based on best estimates of valuation assumptions. Accounts receivable, loans receivable, grants receivable, receivable from the City, tenants' deposits and rent received in advance and accounts payable and accrued liabilities are believed to have carrying values equal to their fair values due to their short-term nature.

(in thousands of dollars)

Fair value measurement

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

- Level 3 - inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate, based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

The following table illustrates the classification of TCHC's financial instruments that are measured at fair value within the fair value hierarchy:

				2014
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments	275,634	-	-	275,634
Interest rate swap	-	2,732		2,732
	275,634	2,732	-	278,366

				2013
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments	210,517	-	-	210,517
Interest rate swap	-	3,278	-	3,278
	210,517	3,278	-	213,795

Risk management

TCHC is exposed to a variety of financial risks, including market risk, interest rate risk, credit risk and liquidity risk. TCHC's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on TCHC's financial performance.

(in thousands of dollars)

- Market risk

  - Fixed income investment market risk

    TCHC is exposed to market risk through the fluctuation of fixed income financial instrument fair values due to changes in market prices. TCHC conducts the following so as to mitigate market risk: (i) TCHC's investment portfolio is limited to investments in BBB grade or higher; (ii) an investment manager manages the investment portfolio on behalf of TCHC, and investment performance is assessed in relation to pre-established benchmarks; and (iii) the performance and risks associated with the investment portfolio are reviewed on a quarterly basis by TCHC's Investment Advisory Committee, which reports to TCHC's Building Investment, Finance and Audit Committee.

  - Equity investment market risk

    TCHC's investment policies allow for a portion of its investments to be invested in equity. Market risk associated with equity investment is mitigated by: (i) ensuring only a portion of the investment portfolio is invested in equity securities; and (ii) ensuring that the types of equity investments are associated with average to below average levels of market volatility. As at December 31, 2014, TCHC does not have any equity investments.

- Interest rate risk

  Interest rate risk is the risk future cash flows of a financial instrument will fluctuate because of changes in market interest rates. TCHC is exposed to interest rate risk as a result of cash balances, investments, and debt.

  - Floating interest rate risk

    The risk of increases in the floating interest rate on TCHC's debt, if unmitigated, could lead to decreases in cash flow and excess of expenditures over revenues. As at December 31, 2014, floating rate debt represented 3.63% (2013 - 3.90%) of total debt obligations. TCHC has mitigated its interest rate on substantially all floating rate long-term debt by entering into an interest rate swap.

    As at December 31, 2014, the effect on unrestricted surplus of a 50 basis points absolute change in market interest rate of the floating rate debt obligations is $240 (2013 - $255).

    The sensitivity analysis included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analysis, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in any other assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

(in thousands of dollars)

- Credit risk

  - Fixed income credit risk

    TCHC has investments in fixed income securities issued by corporations and government entities. TCHC mitigates its risk by limiting its investment portfolio to investments in BBB grade or higher.

  - Accounts receivable credit risk

    TCHC is exposed to credit risk in the event of non-payment by tenants.

    As at December 31, 2014, the following is the aging of accounts receivable:

	30 days $	60 days $	90 days $	120 days $	Over 120 days $	Total $
Accounts receivable	59,161	2,561	397	930	4,494	67,543

    As at December 31, 2013, the following is the aging of accounts receivable:

	30 days $	60 days $	90 days $	120 days $	Over 120 days $	Total $
Accounts receivable	65,653	2,819	1,136	1,446	3,973	75,027

    TCHC maintains an allowance for doubtful accounts to address this risk. The balance at December 31, 2014 amounts to $12,496 (2013 - $9,029). For the year ended December 31, 2014, TCHC recognized bad debts expense of $3,954 (2013 - $3,091).

- Liquidity risk

  Liquidity risk results from TCHC's potential inability to meet its obligations associated with financial liabilities as they come due. TCHC monitors its operations and cash flows to ensure current and future obligations will be met. TCHC believes its current sources of liquidity are sufficient to cover its known short and long-term financial commitments.

(in thousands of dollars)

The table below is a maturity analysis of TCHC's financial liabilities as at December 31, 2014:

	Up to 1 year $	More than 1 year up to 5 years $	More than 5 years $	Total $
Accounts payable and accrued liabilities	141,120	-	-	141,120
Project financing (note 11)	79,723	192,047	1,057,343	1,329,113
	220,843	192,047	1,057,343	1,470,233

23 External sales

External sales arise substantially through work provided to third parties as general contractor. These external sales are directly incurred through a subsidiary of TCHC. The subsidiary has ceased operations as at December 31, 2014 and is expected to be dissolved in 2015.

24 Comparative balances

Certain comparative balances have been reclassified to conform to the December 31, 2014 consolidated financial statement presentation.