Toronto Community Housing Corporation

Consolidated Financial Statements
December 31, 2011

pwc

June 25, 2012

Independent Auditor's Report

To the Shareholder of
Toronto Community Housing Corporation

We have audited the accompanying consolidated financial statements of Toronto Community Housing Corporation and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2011 and the consolidated statements of operations, changes in net assets and cash flows for the year ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP, Chartered Accountants
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2011 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto Community Housing Corporation

Consolidated Balance Sheet

As at December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash	128,289	186,502
Investments (note 3)	116,649	144,501
Current portion of investments for unspent restricted grants (notes 3 and 13)	-	22,950
Accounts receivable (note 4(a))	104,395	109,153
Loans receivable (note 5)	31,347	23,705
Prepayment for energy plant (note 21)	13,500	-
Prepaid expenses	5,473	4,895
	399,653	491,706
Long-term receivables	253	-
Loans receivable (note 5)	16,412	18,609
Grants receivable	10,559	10,954
Equity investments (note 5)	7,215	4,599
Investments for capital asset replacement reserve (notes 3 and 12)	31,362	25,860
Investments for internally restricted purposes (notes 3 and 15)	37,223	25,997
Receivable from the City of Toronto (note 4(b))	21,325	21,325
Housing projects (note 6)	1,504,190	1,477,366
Other capital assets (note 7)	895,894	865,130
Guaranteed Equity Housing project (note 8)	9,478	9,744
Prepaid lease	1,244	1,301
Total assets	2,934,808	2,952,591

Toronto Community Housing Corporation

Consolidated Balance Sheet ...*continued*

As at December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Liabilities		
Current liabilities		
Bank loan (note 9)	70,860	63,860
Accounts payable and accrued liabilities (notes 4(a) and 8)	134,038	140,494
Tenants' deposits and rents received in advance	11,034	11,175
Deferred revenue	1,762	1,849
Current portion of deferred revenue on long-term leases	71	71
Current portion of project financing (note 11)	49,088	105,270
	266,853	322,719
Capital asset replacement reserve (note 12)	31,362	25,860
Deferred revenue on long-term leases	1,258	1,329
Employee benefits (note 10)	68,056	61,805
Project financing (note 11)	1,182,866	1,178,965
Interest rate swap liability (note 11(c)(i))	6,119	4,193
Debenture loans (note 11(e))	96,142	121,993
Deferred capital contributions (note 13)	546,417	523,304
Total liabilities	2,199,073	2,240,168
Surplus		
Share capital		
Authorized		
Issued 100 common shares	1	1
Internally restricted surplus (note 15)	37,223	25,997
Unrestricted surplus	698,511	686,425
Total net assets	735,735	712,423
	2,934,808	2,952,591

Commitments and contingencies (notes 17 and 18)

Approved on Behalf of the Board

Director

Director

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

Toronto Community Housing Corporation

Consolidated Statement of Operations

For the year ended December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Revenue		
Subsidies (notes 4(c) and 16)	309,355	306,749
Rent		
Residential	271,008	266,778
Commercial	11,548	10,958
Amortization of deferred capital contributions (note 13)	41,623	37,556
Parking, laundry and cable fees	17,240	16,869
Investment income	14,219	11,740
External sales	6,928	19,410
Joint venture income	11,332	7,800
Gain on sale of housing projects	1,467	-
Other	2,940	2,881
	687,660	680,741
Expenses		
Operating and maintenance (note 17(b))	265,960	263,922
Municipal taxes	100,378	104,329
Depreciation	119,646	110,114
Interest (note 11)	75,539	74,067
Administration	68,295	70,337
Rent supplement program (note 16)	31,040	29,358
Plant	1,042	1,167
Loss from Guaranteed Equity Housing Project (note 8)	381	383
Loss on sale of housing projects	-	1,405
	662,281	655,082
Excess of revenue over expenses before unrealized gains (losses)	25,379	25,659
Unrealized gains (losses)		
Change in unrealized gain (loss) on investments	(141)	1,511
Change in unrealized loss on interest rate swap (note 11(c)(i))	(1,926)	(684)
	(2,067)	827
Excess of revenue over expenses for the year	23,312	26,486

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, 2011

(in thousands of dollars)

	2011			
	Share capital $	Internally restricted surplus $	Unrestricted surplus $	Total $
Net assets - Beginning of year	1	25,997	686,425	712,423
Excess of revenue over expenses for the year	-	-	23,312	23,312
Change in internally restricted surplus (note 15)	-	11,226	(11,226)	-
Net assets - End of year	1	37,223	698,511	735,735

	2010			
	Share capital $	Internally restricted surplus $	Unrestricted surplus $	Total $
Net assets - Beginning of year	1	33,353	652,583	685,937
Excess of revenue over expenses for the year	-	-	26,486	26,486
Change in internally restricted surplus (note 15)	-	(7,356)	7,356	-
Net assets - End of year	1	25,997	686,425	712,423

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, 2011

(in thousands of dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	23,312	26,486
Add (deduct): Items not involving cash		
Amortization of deferred capital contributions	(41,623)	(37,556)
Depreciation	119,646	110,114
Gain on sale of housing projects	(1,467)	1,405
Change in unrealized (gain) loss on investments	141	(1,511)
Change in unrealized (gain) loss on interest rate swap	1,926	684
Imputed interest on loan	150	163
Increase in equity investments	(2,616)	(3,486)
Equity appreciation of Guaranteed Equity Housing	115	112
	99,584	96,411
Changes in non-cash working capital balances related to operations		
Accounts receivable	4,758	3,816
Prepayment for energy plant	(13,500)	-
Prepaid expenses	(578)	(738)
Prepaid lease	57	56
Accounts payable and accrued liabilities	4,936	1,919
Tenants' deposits and rents received in advance	(141)	603
Deferred revenue	(87)	(1,021)
Deferred revenue on long-term leases	(71)	(176)
Employee benefit obligations	6,251	3,383
Cash provided by operating activities	101,209	104,253
Investing activities		
Decrease (increase) in loans receivable	(5,445)	39,940
Net decrease (increase) in investment funds	35,107	(30,077)
Acquisition of housing projects	(86,473)	(73,620)
Proceeds on sale of housing projects	9,019	12,310
Purchase of other capital assets	(102,190)	(173,965)
Cash used in investing activities	(149,982)	(225,412)
Financing activities		
Bank loan	7,000	(15,000)
Increase (decrease) in accounts payable and accrued liabilities related to the purchase of housing projects and other capital assets	(11,507)	179
Decrease (increase) in long-term grants receivable	395	(10,954)
Repayment of project financing	(107,571)	(45,022)
New project financing and debenture loan	29,199	258,960
Contributions for capital asset replacement reserve	8,308	8,148
Restricted grants for housing projects	64,736	88,528
	(9,440)	284,839
Increase (decrease) in cash during the year	(58,213)	163,680
Cash - Beginning of year	186,502	22,822
Cash - End of year	128,289	186,502
Supplementary information		
Interest paid during the year	73,633	74,944
Accrued capital expenditures	45,535	57,042
Additions by capital lease	87	-

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 (TCHC). On October 9, 2001, articles of amendment were filed to effect a name change to Toronto Community Housing Corporation. TCHC is wholly owned by the City of Toronto (the City). In establishing TCHC, the City approved a Shareholder Direction that set guiding principles, high level objectives and expected accountability to the City. The Shareholder Direction establishes TCHC as a not-for-profit corporation operating at arm's length from the City, under the direction of an independent Board of Directors.

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

TCHC is a 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 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit oriented organizations, as described in Part V of The Canadian Institute of Chartered Accountants (CICA) Handbook. 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)
- Housing Services Inc.
- Toronto Community Housing Enterprises Inc. (TCHE)
- Railway Lands Development Corporation (RLDC)

These consolidated financial statements also include the proportionate consolidation of TCHC's interest in a joint venture, Regent Park Energy Inc. (RPEI), and the following joint ventures, which have been accounted for using the equity method:

- Dundas and Parliament Development Corporation (DPDC)
- Parliament and Gerrard Development Corporation (PGDC)
- Library District Inc.

All intercompany transactions and balances have been eliminated.

(in thousands of dollars)

Revenue recognition

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

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

Financial instruments

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

TCHC has chosen to continue to apply CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in place of CICA 3862 - Financial Instruments - Disclosures, and CICA 3863 - Financial Instruments - Presentation.

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

	Category	Measurement
Cash	loans and receivables	amortized cost
Investments	held-for-sale	fair value
Accounts, loans and other receivables	loans and receivables	amortized cost
Accounts payable and accrued liabilities	financial liabilities	amortized cost
Tenant 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 liability	held-for-trading	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 and equities are determined based on the latest bid prices.
- Investments in pooled funds are valued at their reported net asset value per unit.

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

(in thousands of dollars)

Investment income includes interest, pooled fund distributions and realized gains and losses. Investment income related to operations is accounted for in the consolidated statement of operations. Investment income earned on externally restricted funds is credited directly to the externally restricted funds on the consolidated balance sheet.

Investments in joint ventures

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

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

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

Derivative financial instruments

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

Financing costs

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

Housing projects and other capital assets

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

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

(in thousands of dollars)

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

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

Deferred capital contributions

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

Employee related costs

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

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

(in thousands of dollars)

Foreign currency translation

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

Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include determining the amounts for future employee benefits, useful lives for depreciation and amortization and the allowance for uncollectible accounts receivable. Actual results could differ from those estimates.

Future accounting policy changes

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

3 Investments

Investments consist of the following:

	2011 $	2010 $
Fixed income securities (i)	185,234	175,359
Money market fund	-	43,949
	185,234	219,308
Less: Investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve (note 12)	(31,362)	(25,860)
Less: Investments for internally restricted purposes (note 15)	(37,223)	(25,997)
Less: Investments for unspent restricted grants (note 13)	-	(22,950)
	116,649	144,501

(in thousands of dollars)

i) These investments consist of corporate and Canadian government fixed income securities with interest rates between 2.25% and 8.50% and maturity dates ranging from 2014 to 2021.

4 Account balances with City of Toronto

a) TCHC enters into transactions with the City in the normal course of business and includes payments for various services and supplies. Included in accounts receivable is $75,510 (2010 - $76,320) receivable from the City and included in accounts payable and accrued liabilities is $10,430 (2010 - $9,531) payable to the City as a result of these transactions.

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

Included in long-term receivable from the City is $4,269 (2010 - $4,259) for sick leave benefits (note 10(f)) and $17,056 (2010 - $17,056) for other employment and post-employment benefits (note 10(h)).

c) The City provided $309,355 (2010 - $306,749) in subsidies to TCHC during the year (note 16) and revenues received from the City for construction services are $484 (2010 - $2,224). Expenditures incurred with the City include, $32,461 (2010 - $30,000) for water and waste, $100,378 (2010 - $104,329) for taxes and $2,048 (2010 - $2,186) for interest charges.

d) During 2011, TCHC sold one parcel of land to the City for $1 and exchanged, with the City, another parcel of land of approximately equal value. A building, to which the City had contributed, was sold to the City for $1.

5 Equity investments and loans receivable

	Equity investments		Loans receivable	
	2011 $	2010 $	2011 $	2010 $
Equity in joint venture - DPDC (note 5(a)(i))	3,754	3,072	2,470	26,366
Equity in joint venture - PGDC (note 5(a)(ii))	2,737	(21)	33,315	3,983
Equity in joint venture - Library District Inc. (note 5(c))	724	-	-	-
Mortgages receivable (note 5(d))	-	-	11,974	11,965
Other investments	-	1,548	-	-
	7,215	4,599	47,759	42,314
Less: Current portion of loans receivable			(31,347)	(23,705)
Long-term portion of loans receivable			16,412	18,609

(in thousands of dollars)

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

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

	2011 $	2010 $
Total assets	8,494	21,909
Liabilities	4,740	18,836
Co-tenants' equity		
Contributed surplus	293	293
Surplus	3,461	2,780
Total liabilities and co-tenant's equity	8,494	21,909
Housing unit sales	35,493	41,386
Cost of sales	(23,087)	(31,615)
Other	571	(2,460)
Profit for the year	12,977	7,311
Surplus (deficit) - Beginning of year	2,780	(88)
Drawings	(12,296)	(4,443)
Surplus - End of year	3,461	2,780
Cash provided by operating activities	29,311	8,112
Cash used in financing activities	(22,903)	(20,814)
Cash provided by (used in) investing activities	(203)	13,186

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. Amounts are advanced under five separate non-revolving 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. Loans earn interest at the bank's prime rate plus 0.28%. As at December 31, 2011, TCHC has advanced $2,470 (2010 - $26,366) 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 have equal interests in the co-tenancy of the development, which operates through a nominee corporation, PGDC. RPDC accounts for this joint venture using the equity method.

(in thousands of dollars)

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

	2011 $	2010 $
Total assets	28,630	5,830
Liabilities	25,893	5,851
Co-tenants' equity (deficiency)		
Contributed capital	3,845	-
Deficit	(1,108)	(21)
	28,630	5,830
Expenses	1,087	21
Loss for the year	(1,087)	(21)
Deficit - Beginning of year	(21)	-
Deficit - End of year	(1,108)	(21)
Cash provided by (used in) operating activities	(16,803)	1,749
Cash provided by financing activities	18,461	3,450
Cash used in investing activities	-	(4,685)

TCHC has entered into a loan agreement with PGDC to finance the pre-development costs of condominium buildings. The loans are repayable when PGDC obtains construction financing for each condominium building. The loan facility to PGDC is guaranteed by the co-tenancy partners as well as other affiliated companies. Amounts are advanced under three separate non-revolving term facilities and earn interest at the bank's prime rate plus 0.50%. As at December 31, 2011, TCHC has advanced $33,315 (2010 - $3,983) to PGDC.

iii) TCHC's wholly owned subsidiary, RPDC, has entered into a joint venture agreement with two other venturers for the construction of the Regent Park Arts and Cultural Centre (RPACC). RPDC and its joint venture partners have equal interest in the joint venture, which has incorporated the Regent Park Arts Non-Profit Development Corporation (RPAD) to construct RPACC. 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.

TCHC's contributions to RPAD include a 50-year lease of the land, on which RPACC will be built, for an annual fee of $1. TCHC and the City of Toronto have also signed an agreement with the Ontario government to provide up to $24 million in Infrastructure Stimulus Funds to finance the construction of RPACC. TCHC has received $17 million of this funding to date and has transferred this funding to RPAD. TCHC continues to be responsible for ensuring that the funds received have been spent in accordance with the terms of the funding agreement.

(in thousands of dollars)

Once RPACC is constructed, one of the non-TCHC joint venture partners will be responsible for its operations. If construction costs are incurred in excess of amounts budgeted to construct RPACC, the non-TCHC joint venture partner is responsible for soliciting donations to finance the excess costs incurred. If these donations are not sufficient, borrowings from a third-party lender may be obtained based on future rental income from RPACC. If necessary, the joint venture partners (including TCHC by way of RPDC) may be responsible for guaranteeing these borrowings.

b) TCHC's wholly owned subsidiary, TCHE, entered into a joint venture with a utility corporation for the construction and operation of the heating and cooling plant located in the Regent Park Development Project. TCHE has a 60% interest in the heating and cooling plant and operations, which operates through a nominee corporation, RPEI. The remaining 40% interest in RPEI was purchased subsequent to year-end (note 21). TCHC accounts for this joint venture using the proportionate consolidation method. There are no significant differences in the accounting policies of RPEI.

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

	2011 $	2010 $
Current assets	376	710
Capital assets	18,008	17,640
	18,384	18,350
Current liabilities	418	687
Long-term liabilities	1,710	477
	2,128	1,164
Revenue	718	583
Expenses	(1,041)	(1,118)
Depreciation	(539)	(532)
Net loss for the year	(862)	(1,067)
Cash used in operating activities	(555)	(893)
Cash provided by financing activities	1,211	2,180
Cash used in investing activities	(953)	(1,157)

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

TCHC will sell a 50% interest in the land to the developer for an agreed amount of $4,160. As at December 31, 2011, the land has not been sold. No funds have been advanced to the co-tenancy.

(in thousands of dollars)

	$
Total assets	10,362
Liabilities	9,638
Co-tenant's equity	
Contributed capital	1,187
Deficit	(463)
Total liabilities and co-tenant's equity	10,362
Expenses	462
Loss for the year	(462)
Deficit - Beginning of year	-
Deficit - End of year	(462)
Cash used in operating activities	(211)
Cash provided by financing activities	1,372
Cash used in investing activities	(1,194)

d) The mortgages receivable are related to a sales-type lease from 2010 for 60 Richmond Street. One mortgage has a maturity date of May 11, 2037 and bears interest at 4.88%. The other two mortgages have a term starting on May 11, 2037 and ending on May 11, 2057, and will bear interest equal to the replacement debenture rate.

6 Housing projects

Housing projects consist of the following:

						2011
	Opening cost January 1 $	Net additions (disposals) $	Completed during the year $	Closing cost $	Accumulated depreciation $	Net December 31 $
Land	368,195	(4,463)	10,443	374,175	-	374,175
Buildings	1,530,326	(1,709)	55,977	1,584,594	(592,600)	991,994
Plant	18,405	-	1,235	19,640	(1,380)	18,260
Housing projects under construction	106,278	81,138	(67,655)	119,761	-	119,761
	2,023,204	74,966	-	2,098,170	(593,980)	1,504,190

(in thousands of dollars)

	2010					
	Opening cost January 1 $	Net additions (disposals) $	Completed during the year $	Closing cost $	Accumulated depreciation $	Net December 31 $
Land	366,917	(2,554)	3,832	368,195	-	368,195
Buildings	1,472,304	(17,253)	75,275	1,530,326	(545,041)	985,285
Plant	16,026	-	2,379	18,405	(797)	17,608
Housing projects under construction	112,187	75,577	(81,486)	106,278	-	106,278
	1,967,434	55,770	-	2,023,204	(545,838)	1,477,366

Housing projects include capitalized interest of $2,472 (2010 - $8,150).

7 Other capital assets

Other capital assets consist of the following:

	2011				
	Opening cost January 1 $	Net additions $	Closing cost $	Accumulated depreciation $	Net December 31 $
Improvements to land and buildings	1,024,094	96,953	1,121,047	(272,694)	848,353
Furniture and equipment	113,732	5,219	118,951	(71,479)	47,472
Leasehold improvements	2,801	18	2,819	(2,750)	69
	1,140,627	102,190	1,242,817	(346,923)	895,894

	2010				
	Opening cost January 1 $	Net additions $	Closing cost $	Accumulated depreciation $	Net December 31 $
Improvements to land and buildings	857,954	166,140	1,024,094	(212,178)	811,916
Furniture and equipment	105,956	7,776	113,732	(60,593)	53,139
Leasehold improvements	2,752	49	2,801	(2,726)	75
	966,662	173,965	1,140,627	(275,497)	865,130

Other capital assets include assets under capital leases with a carrying value of $13,679 (2010 - $15,078) (note 11(c)(iii)).

(in thousands of dollars)

8 Guaranteed Equity Housing Project

TCHC owns a building that has Guaranteed Equity Units, each consisting of rights that include membership in the Equity Corporation and the right to occupy a particular suite in the building, which were sold to seniors under terms guaranteeing the repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the consumer price index. This asset is reflected in the consolidated balance sheet as a housing project cost; therefore, when a unit is repurchased, no gain or loss is recorded. This obligation is recorded at $15,580 (2010 - $15,339) and is included in TCHC's accounts payable and accrued liabilities in the consolidated balance sheet. The fair value of this obligation is not determinable as there are no defined repayment terms.

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

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

			2011
	Beginning of year $	Net change during the year $	End of year $
Land	1,216	-	1,216
Building	13,058	-	13,058
	14,274	-	14,274
Less: Accumulated depreciation	(4,530)	(266)	(4,796)
	9,744	(266)	9,478

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

(in thousands of dollars)

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

	2011 $	2010 $
Depreciation	266	266
Accretion of repurchase obligation	89	112
Operating, marketing and selling	60	52
Administrative and other	19	28
	434	458
Less: Sundry revenue	(51)	(73)
Less: Amortization of deferred capital contributions	(2)	(2)
Loss for the year	381	383

9 Short-term bank facilities

TCHC has a committed revolving credit facility of $200,000 (2010 - $200,000) that is available for short-term advances and letters of credit. Short-term advances are available by way of banker's acceptance (BA). For 2011, the interest charges are at the bank's BA rate plus 1.10%. As at December 31, 2011, short-term advances of $70,860 (2010 - $63,860) have been used and are repayable at maturity on various dates throughout 2012. As at December 31, 2011, there are outstanding letters of credit of $6,499 (2010 - $10,716), which reduce the amount available under this facility.

10 Employee benefits

a) Employee benefits liabilities of TCHC

	2011 $	2010 $
Workers' Safety and Insurance Board (WSIB) obligations (note 10(e))	13,444	12,282
Sick leave benefits (note 10(f))	12,764	11,865
Severance/termination benefits (note 10(g))	1,637	1,568
Other employment and post-employment benefits (note 10(h))	20,484	19,785
	48,329	45,500
SERP (note 10(i))	19,727	16,305
	68,056	61,805

(in thousands of dollars)

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

	SERP		Other benefits	
	2011 $	2010 $	2011 $	2010 $
Accrued benefit obligation	30,277	23,038	45,050	41,670
Plan assets	(531)	(419)	-	-
Unamortized actuarial (loss) gain	(1,466)	4,313	-	-
Unamortized past service costs	(8,553)	(10,627)	3,279	3,830
	19,727	16,305	48,329	45,500

b) Continuity of TCHC's accrued benefit liabilities

	SERP		Other benefits	
	2011 $	2010 $	2011 $	2010 $
Balance - Beginning of year	16,305	13,241	45,500	45,181
Current service cost (recovery)	725	613	1,124	(1,461)
Interest cost	1,358	1,259	1,171	1,186
Benefits paid	-	-	(1,177)	(968)
Amortization of past service costs	2,074	2,074	(551)	(551)
Amortization of actuarial gains	(335)	(822)	-	-
Actuarial loss	-	-	2,262	2,113
Funding contributions	(400)	(60)	-	-
Balance - End of year	19,727	16,305	48,329	45,500

c) TCHC's employee benefits expense

	SERP		Other benefits	
	2011 $	2010 $	2011 $	2010 $
Current service cost (recovery)	725	613	1,124	(1,461)
Interest cost	1,358	1,259	1,171	1,186
Amortization of past service costs	2,074	2,074	(551)	(551)
Amortization of actuarial gains	(335)	(822)	-	-
Actuarial loss	-	-	2,262	2,113
	3,822	3,124	4,006	1,287

d) Non-pension benefits payments

During the year, TCHC made non-pension benefits payments of approximately $3,395 (2010 - $3,771) directly to employees and retirees.

(in thousands of dollars)

e) Workplace safety and insurance obligations

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

The actuarial extrapolation of WSIB's Benefit Plan liabilities as at December 31, 2011 is based on an extrapolation of WSIB's statement of liabilities as at December 31, 2010.

f) Liability for sick leave benefits

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

In order to provide for this past service liability, the former THC participated in a reserve fund established by the City. Since the former THC participated in the City's reserve fund, a receivable from the City has been set up equal to the liability of the former THC of $4,678 (2010 - $4,678), less $409 (2010 - $409), which is an amount funded internally by TCHC (note 4(b)).

Due to the complexities in valuing the liabilities of the sick leave benefits, actuarial valuations are conducted on a periodic basis. The accrued benefit obligation as at December 31, 2011 is based on the most recent actuarial valuation that was completed as at December 31, 2009.

g) Severance/termination benefits

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

h) Other employment and post-employment benefits

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

The former THC participated in a payroll benefits plan reserve fund established by the City to provide for future benefits to all City employees and retirees. An amount of $17,056 (2010 - $17,056), representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City (note 4(b)).

(in thousands of dollars)

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 of January 1, 2001. A current eligible employee is one who was an active employee on February 15, 2006 (the date this benefit was approved by the Board of Directors) and had transferred employment on January 1, 2001 from the Metro Toronto Housing Authority to TCHC and became a member of the Ontario Municipal Employees' Retirement Fund (OMERS). This plan provides a supplementary benefit so that the total pension benefit on retirement would have been the same as that received had the employee been able to transfer his/her pensions to OMERS.

Due to the complexities in valuing the liabilities of the SERP, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as at December 31, 2008 and the accrued benefit obligation as at December 31, 2011 is based on an extrapolation of the December 31, 2008 valuation.

ii) OMERS

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

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

Depending on the individual's normal retirement age and pensionable earnings, 2011 contribution rates were 7.4% to 10.7% (2010 - 6.4% to 9.7%). Total employer contributions for the year ended December 31, 2011 amounted to $6,881 (2010 - $6,039) and are included in administration expenses on the consolidated statement of operations.

(in thousands of dollars)

j) Actuarial assumptions

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

	SERP		Other benefits	
	2011 %	2010 %	2011 %	2010 %
Discount rates for benefit obligation				
Post-retirement and sick leave	-	-	4.75	5.25
Post-employment	-	-	4.00	4.50
Pension	4.50	5.75	-	-
Discount rates for benefit costs				
Post-retirement and sick leave	-	-	5.25	6.25
Post-employment	-	-	4.50	5.00
Pension	5.75	6.50	-	-
Rate of compensation increase	3.00	3.00	3.00	3.00

For measurement purposes, a 7.42% 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 2024 and remain at that level thereafter.

11 Project financing and debenture loans

Project financing consists of the following:

	2011 $	2010 $
Mortgages payable to		
Canada Mortgage and Housing Corporation (CMHC) (note 11(a))	391,870	412,051
Other (note 11(b))	381,721	391,585
Long-term loans payable to others (note 11(c))	63,402	129,524
Debenture loans (note 11(e))	348,738	322,799
Long-term loans payable to the City (note 11(d))	46,223	28,276
	1,231,954	1,284,235
Less: Current portion	(49,088)	(105,270)
	1,182,866	1,178,965

Interest incurred on long-term debt was $75,539 (2010 - $74,067) and has been recorded in interest expense on the consolidated statement of operations. All mortgages (notes 11(a) and (b)) and the capital leasing facility (note 11(c)(iii)) have their underlying assets pledged as security. The remaining loans are unsecured.

(in thousands of dollars)

The change in project financing is calculated as follows:

	2011 $	2010 $
New project financing	29,199	61,000
Imputed interest on loan	150	162
Debenture proceeds	26,140	102,622
Less: Mortgage payments	(38,919)	(36,992)
Less: Loan payments	(68,652)	(8,030)
Less: Deferred financing costs	(200)	(1,077)
Net increase (decrease) in financing	(52,282)	117,685

Principal repayments are due as follows:

	CMHC $	City $	Others $	Total $
2012	20,981	2,352	25,754	49,087
2013	21,999	2,478	26,984	51,461
2014	22,903	2,594	28,280	53,777
2015	23,896	2,719	28,302	54,917
2016	24,938	2,869	26,229	54,036
Thereafter	277,153	33,211	663,432	973,796
Deferred financing charges on project financing	-	-	(5,120)	(5,120)
	391,870	46,223	793,861	1,231,954

a) CMHC mortgages bear interest at rates between 2.86% and 11.00% (2010 - 2.65% and 11.0%). These mortgages mature between 2012 and 2031.

b) Other mortgages bear interest at rates between 2.68% and 12.75% (2010 - 3.02% and 13.27%). These mortgages mature between 2016 and 2048.

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

i) As at December 31, 2011, TCHC has a non-revolving 20-year amortizing construction bridge term loan of $40,432 (2010 - $42,928) to assist with the financing of the construction for Phase 1 of its Building Renewal Program, which was completed in 2009.

The loan is obtained through one-year BAs and interest is payable at the BA rate plus 20 basis points (the stamping fee). TCHC entered into a 12-year interest rate swap facility in 2006, which effectively fixed the interest rate at 4.55% (2010 - 4.55%) plus the applicable BA stamping fee. This facility will continue to be available to fix the interest rate exposure on renewals of the loan for the balance of the committed 12-year term, which matures on February 15, 2018.

(in thousands of dollars)

As at December 31, 2011, the notional value of the interest rate swap was $40,432 (2010 - $42,928) and the fair value was an unrealized loss of approximately $6,119 (2010 - $4,193), which is recorded as a liability on the consolidated balance sheet.

ii) In September 2006, TCHC entered into a seven-year unsecured term loan for $14,650 to refinance certain of its buildings and renovations. Interest is payable at 4.58% (2010 - 4.58%). The unamortized balance will be due at maturity in 2013. As at December 31, 2011, the term loan balance was $12,816 (2010 - $13,205).

iii) TCHC had a capital leasing facility of $20,000 with interest payable at 5.11% to finance a portion of its appliance replacement program. In August 2007, purchases made under this facility were sold and leased back to TCHC. Leasing payments started in August 2007 at $253 per month for a period of 96 months. As at December 31, 2011, $9,928 (2010 - $12,390) was outstanding on this facility.

iv) In 2011, TCHC obtained a $61,000 non-revolving three-year term loan to finance the construction of a condominium in Regent Park Phase 2. As at December 31, 2011, the loan balance is $nil (2010 - $61,000).

d) Loans from the City bear interest at rates between 2.75% and 11.00% (2010 - 2.75% and 11.00%). These loans mature between 2016 and 2031.

e) TCHC has entered into a Credit Agreement, dated May 11 2007, with TCHC Issuer Trust, which in turn entered into an agreement with various agents to issue bonds. TCHC Issuer Trust has advanced all proceeds of the bond offerings to TCHC as a loan having the same interest rate and term as the debenture, pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust.

Details of the bond issues are as follows:

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

TCHC has used $250,000 (2010 - $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 same term as the debt. In 2011, amortization of $58 (2010 - $57) was recorded.

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

TCHC has used $102,855 (2010 - $76,715) of this loan for long-term financings of social housing projects. The balance of the loan of $97,145 (2010 - $123,285) will be used 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. In 2011, amortization of $30 (2010 - $25) was recorded.

(in thousands of dollars)

Debenture loans consist of the following:

	2011		
	Project financing $	**Debenture loan $**	**Total $**
Proceeds from issuance of debentures	352,855	97,145	450,000
Deferred financing costs	(4,117)	(1,003)	(5,120)
	348,738	96,142	444,880

	2010		
	Project financing $	**Debenture loan $**	**Total $**
Proceeds from issuance of debentures	326,715	123,285	450,000
Deferred financing costs	(3,916)	(1,292)	(5,208)
	322,799	121,993	444,792

12 Capital asset replacement reserve

Under the terms of an agreement with the Ontario Ministry of Municipal Affairs and Housing, TCHC is required to maintain a reserve for major repairs and maintenance and contribute annually to the reserve from its operations funding received from the City of Toronto. 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:

	2011 $	**2010 $**
Balance - Beginning of year	25,860	26,647
Contributions during the year	8,308	8,148
Investment income	1,174	1,790
Less: Transfer to deferred capital contributions for expenditures (note 13)	(3,980)	(10,725)
Balance - End of year	31,362	25,860

(in thousands of dollars)

13 Deferred capital contributions

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

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

	2011 $	2010 $
Balance - Beginning of year	523,304	465,340
Restricted grants for housing projects	60,756	84,795
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditure (note 12)	3,980	10,725
Less: Amortization of deferred capital contributions	(41,623)	(37,556)
Balance - End of year	546,417	523,304

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

Deferred capital contributions include unspent funds of $nil (2010 - $22,950), which are shown in the consolidated balance sheet as investments for unspent restricted grants.

14 Toronto Affordable Housing Fund

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

a) providing financial support to qualified individuals so that they may purchase eligible homes; and

b) providing access to and promoting the availability of long-term affordable ownership housing and such other complimentary purposes not consistent with these objects.

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

TAHF is not consolidated with TCHC.

(in thousands of dollars)

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

	2011 $	2010 $
Bank balance - Beginning of year	1,069	4,553
Grants received	1,659	383
Interest earned	21	6
Appreciation on repayments	47	24
Sundry	2	-
Net loans provided	(1,460)	(3,897)
Bank balance - End of year	1,338	1,069

15 Internally restricted surplus

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

i) 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 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.

ii) Regent Park Development Reserve Fund

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

Internally restricted surplus consists of the following:

			2011	2010
	State of Good Repair Fund $	Regent Park Development Reserve Fund $	Total $	Total $
Transfers from operations for the year consist of				
Capital expenditures	-	(9,755)	(9,755)	(20,640)
Operating surplus transfer	7,379	12,000	19,379	12,000
Investment income earned	-	1,630	1,630	1,396
Fair value adjustments for investments held	-	(28)	(28)	(112)
Net transfers for the year	7,379	3,847	11,226	(7,356)
Balance - Beginning of year	-	25,997	25,997	33,353
Balance - End of year	7,379	29,844	37,223	25,997

(in thousands of dollars)

16 Program administration

TCHC administers various programs on behalf of the City. Subsidies received from the City offsetting these costs have been recorded in subsidies revenue. TCHC incurred costs of $12,251 (2010 - $12,031) for the commercial rent supplement program, $11,644 (2010 - $11,831) for the strong communities program, $nil (2010 - $447) for the housing allowance pilot program, $3,677 (2010 - $4,239) for the housing allowance roll-out program, $1,655 (2010 - $10) for the short-term rent support program and $1,813 (2010 - $800) for the mental health commission program. These amounts, totalling $31,040 (2010 - $29,358), are included in the rent supplement programs expense. TCHC also received rent supplements of $25,799 (2010 - $23,671) for the community sponsored program, which have been recorded as subsidies revenue.

Other housing program subsidies received from the City are based on mortgage principal and interest and municipal tax payments for housing projects funded under the TCHC Operating Agreement with the City and have been recorded in subsidies revenue. For these projects, the municipal tax expense for 2011 totalled $88,830 (2010 - $91,593) and the mortgage principal and interest payments for 2010 totalled $77,885 (2010 - $78,556).

17 Commitments

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

	$
2012	3,265
2013	1,847
2014	1,271
2015	1,141
2016	863
Thereafter	12,950
	21,337

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

18 Contingencies

a) TCHC will be liable to repay certain CMHC and City loans, not yet formally forgiven, amounting to $4,095 and $7,011 (2010 - 4,364 and $7,439), respectively, which are included in deferred capital contributions (note 13), should it fail to adhere to the terms and conditions under which the loans were originally granted. Management believes TCHC will adhere to the terms and conditions.

b) The nature of TCHC's activities is such that there is often litigation pending or in progress. With respect to claims as at December 31, 2011, 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.

(in thousands of dollars)

c) TCHC has made various claims from insurers with respect to the 200 Wellesley property, which was damaged in a fire in fiscal 2010. TCHC has claimed up to $8.8 million in property and liability insurance proceeds, which represent reimbursements to the TCHC for certain costs incurred. These claims are subject to adjudication processes with the insurers, which as of the date of these financial statements, have not yet been completed. As such, no receivable has been recorded in these consolidated financial statements for these proceeds due to their contingent nature. Settlement of these claims is expected in fiscal 2012.

19 Financial instruments

a) Fair value

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

b) Risk management

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

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

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

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

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

20 Capital management

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

(in thousands of dollars)

21 Subsequent events

On January 5, 2012, TCHC purchased the remaining 40% interest in RPEI (note 5(b)) for $15,255, of which $13,500 was paid prior to year-end and has been recorded as a prepayment for energy plant in the consolidated balance sheet.

In February 2012 and March 2012, TCHC sold four single house properties for net proceeds of $3.1 million and sold 50% of the land that will be used for development of the market unit properties at RLDC for net proceeds of $4.1 million to the joint venture partner (Context Inc.) and contributed the other 50% directly to the joint venture.

22 Comparative figures

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