Toronto Community Housing Corporation

Consolidated Financial Statements
(using public sector accounting standards with
PS 4200 sections)

December 31, 2012, December 31, 2011 and January 1, 2011

pwc

April 29, 2013

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 statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, the consolidated statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011 and the consolidated statement of remeasurement gains for the year ended December 31, 2012, 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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, 2012, December 31, 2011 and January 1, 2011 and the results of their operations and their cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian public sector accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto Community Housing Corporation
Consolidated Statements of Financial Position

(in thousands of dollars)

	December 31, 2012 $	December 31, 2011 $ (Restated - note 3)	January 1, 2011 $ (Restated - note 3)
Assets			
Current assets			
Cash	50,384	128,289	186,502
Investments (note 4)	111,524	116,649	144,501
Investments for unspent restricted grants (notes 4 and 14)	-	-	22,950
Accounts receivable (notes 5(a) and 21(iii))	108,930	104,395	109,153
Loans receivable (note 6)	-	31,347	23,705
Prepayment for energy plant (note 20)	-	13,500	-
Prepaid expenses	7,520	5,473	4,895
	278,358	399,653	491,706
Long-term receivables	-	253	-
Loans receivable (note 6)	16,572	16,412	18,609
Grants receivable (note 14)	10,145	10,559	10,954
Equity investments (note 6)	15,486	7,215	4,599
Investments for capital asset replacement reserve (notes 4 and 13)	34,102	31,362	25,860
Investments for internally restricted purposes (notes 4 and 16)	50,320	37,223	25,997
Receivable from the City of Toronto (note 5(b))	21,325	21,325	21,325
Housing projects acquired or developed (notes 7 and 23)	1,555,623	1,504,190	1,477,366
Improvements to housing projects (notes 8 and 23)	905,736	895,894	865,130
Guaranteed equity housing project (note 9)	9,212	9,478	9,744
Prepaid lease	1,190	1,244	1,301
Total assets	2,898,069	2,934,808	2,952,591

Toronto Community Housing Corporation
Consolidated Statements of Financial Position ...*continued*

(in thousands of dollars)

	December 31, 2012 $	December 31, 2011 $ (Restated - note 3)	January 1, 2011 $ (Restated - note 3)
Liabilities			
Current liabilities			
Bank loan (note 10)	4,000	70,860	63,860
Accounts payable and accrued liabilities (notes 5(a), 9 and 21)	131,387	134,038	140,494
Tenants' deposits and rents received in advance	12,313	11,034	11,175
Deferred revenue	1,440	1,762	1,849
Current portion of deferred revenue on long-term leases	71	71	71
Current portion of project financing (note 12)	67,193	49,088	105,270
	216,404	266,853	322,719
Capital asset replacement reserve (notes 4 and 13)	34,102	31,362	25,860
Deferred revenue on long-term leases	1,186	1,258	1,330
Employee benefits (notes 11(a) and 23)	75,787	68,282	64,288
Project financing (note 12)	1,173,940	1,182,866	1,178,965
Interest rate swap (note 12(c)(i))	4,698	6,119	4,193
Debenture loans (note 12(e))	37,907	96,142	121,993
Deferred capital contributions (note 14)	556,066	546,417	523,304
Total liabilities	2,100,090	2,199,299	2,242,652
Surplus			
Share capital			
Authorized			
Issued 100 common shares	1	1	1
Internally restricted surplus (note 16)	50,320	37,223	25,997
Unrestricted surplus	745,303	698,285	683,941
Accumulated remeasurement gain	2,355	-	-
Total net assets	797,979	735,509	709,939
	2,898,069	2,934,808	2,952,591

Commitments and contingencies (notes 17 and 18)

Subsequent events (note 25)

Approved on Behalf of the Board of Directors

_____________ Director _____________ Director

Norman Purves   Christian Buhagiar

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

Toronto Community Housing Corporation

Consolidated Statements of Operations

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

	2012 $	2011 $ (Restated - note 3)
Revenue		
Subsidies (note 5(c))	248,923	309,355
Rent		
Residential	278,768	271,008
Commercial	12,787	11,548
Amortization of deferred capital contributions (note 14)	44,734	41,623
Parking, laundry and cable fees	17,715	17,240
Investment income	10,743	14,219
External sales (note 24)	8,213	6,928
Joint venture income (note 6)	13,956	11,332
Gain on sale of housing projects (note 22)	8,348	1,467
Other	5,531	2,940
	649,718	687,660
Expenses		
Operating and maintenance (notes 5(c) and 23)	263,002	262,745
Municipal taxes	33,617	100,378
Depreciation	124,088	119,646
Interest (notes 5(c), 10 and 12)	69,783	75,539
Administration (note 23)	65,420	69,252
Rent supplement program (note 5(c))	29,354	31,040
Plant (note 23)	1,985	1,042
Loss from guaranteed equity housing project (note 9)	315	381
Loss from acquisition of energy plant (note 20)	2,039	-
	589,603	660,023
Excess of revenue over expenses before unrealized losses	60,115	27,637
Unrealized losses		
Change in unrealized loss on investments	-	(141)
Change in unrealized loss on interest rate swap (note 12(c)(i))	-	(1,926)
	-	(2,067)
Excess of revenue over expenses for the year	60,115	25,570

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

Toronto Community Housing Corporation

Consolidated Statements of Changes in Net Assets

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

2012

	Share capital $	Internally restricted surplus $	Unrestricted surplus $	Accumulated remeasurement gain $	Total $
Net assets - Beginning of year	1	37,223	698,285	-	735,509
Excess of revenue over expenses for the year	-	-	60,115	-	60,115
Net change in unrealized gains on investments	-	-	-	934	934
Net change in unrealized gains on revaluation of derivatives	-	-	-	1,421	1,421
Change in internally restricted surplus (note 16)	-	13,097	(13,097)	-	-
Net assets - End of year	1	50,320	745,303	2,355	797,979

2011

	Share capital $	Internally restricted surplus $	Unrestricted surplus $	Total $ (Restated - note 3)
Net assets - Beginning of year	1	25,997	683,941	709,939
Excess of revenue over expenses for the year	-	-	25,570	25,570
Change in internally restricted surplus (note 16)	-	11,226	(11,226)	-
Net assets - End of year	1	37,223	698,285	735,509

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

Toronto Community Housing Corporation

Consolidated Statement of Remeasurement Gains

For the year ended December 31, 2012

(in thousands of dollars)

	$
Accumulated remeasurement gains - Beginning of year	
As previously reported	-
Unrealized gains attributable to	
Interest rate swap liability (note 12(c)(i))	1,421
Investments	934
Net remeasurement gains for the year	2,355
Accumulated remeasurement gains - End of year	2,355

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

Toronto Community Housing Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

	2012 $	2011 $ (Restated)
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	60,115	25,570
Add (deduct): Items not involving cash		
Amortization of deferred capital contributions (note 14)	(44,734)	(41,623)
Depreciation	124,088	119,646
Gain on sale of housing projects	(8,348)	(1,467)
Loss on sale of acquisition of energy plant	2,039	-
Change in unrealized loss on investments	-	141
Change in unrealized loss on interest rate swap	-	1,926
Imputed interest on loan (note 12)	140	150
Increase in equity investments	(7,337)	(2,616)
Equity appreciation of guaranteed equity housing (note 8)	266	115
	126,229	101,842
Changes in non-cash working capital balances related to operations		
Accounts receivable	(4,282)	4,758
Prepayment for energy plant	13,500	(13,500)
Prepaid expenses	(2,047)	(578)
Prepaid lease	54	57
Accounts payable and accrued liabilities	(7,183)	(6,571)
Tenants' deposits and rents received in advance	1,279	(141)
Deferred revenue	(322)	(87)
Deferred revenue on long-term leases	(72)	(71)
Employee benefit obligations	7,505	3,993
	134,661	89,702
Investing activities		
Decrease (increase) in loans receivable	31,187	(5,445)
Net decrease (increase) in investments	(9,223)	35,107
	21,964	29,662
Capital activities		
Acquisition of housing projects	(99,373)	(86,473)
Proceeds on sale of housing projects	8,588	9,019
Improvements to housing projects (note 8)	(83,737)	(102,190)
	(174,522)	(179,644)
Financing activities		
Borrowing (repayment) of bank loan	(66,860)	7,000
Decrease in long-term grants receivable	414	395
Repayment of project financing (note 12)	(49,294)	(107,571)
New project financing and debenture loans (note 12)	98	29,199
Contributions for capital asset replacement reserve (note 13)	8,646	8,308
Restricted grants for housing projects	46,988	64,736
	(60,008)	2,067
Decrease in cash during the year	(77,905)	(58,213)
Cash - Beginning of year	128,289	186,502
Cash - End of year	50,384	128,289
Supplementary information		
Interest paid during the year	61,227	73,633
Accrued capital expenditures	50,067	45,535
Capital lease additions	-	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. 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). 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 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 transition to these standards is further described in note 3. 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)
- Allenbury Gardens Development Corporation
- Regent Park Energy Inc. (RPEI)

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.
- Innoserv Inc.

(in thousands of dollars)

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.

TCHC has chosen to early adopt the requirements of PS 3450 - Financial Instruments (PS 3450). This standard was adopted effective January 1, 2012. No transition adjustments have been made to amounts reported previous to this transition date as this standard has been adopted on a prospective basis.

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	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
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	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.

(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 statements of operations. Investment income earned on externally restricted funds is credited directly to the externally restricted funds on the consolidated statements of financial position. Unrealized gains or losses are recorded in the consolidated statement of remeasurement gains 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 statements of financial position.

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 pro rata share of net income (loss) less distributions received.

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.

TCHC currently employs interest rate swaps to convert its variable interest rate on $37,936 of its floating rate loan facilities to a fixed interest rate. Interest rate swaps are employed in order to eliminate variability in future interest cash flows. The swaps are measured at fair value until the interest rate swap is settled.

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 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 statements of operations. Any writedowns 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

(in thousands of dollars)

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 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 and the allowance for uncollectible accounts receivable and contingent liabilities. Actual results could differ from those estimates.

3 Transition to Canadian public sector accounting standards

Commencing with the 2012 fiscal year, TCHC has adopted PSAS. These consolidated financial statements are the first financial statements for which TCHC has applied PSAS. TCHC has elected to apply PSAS standards that apply only to government not-for-profit organizations.

The impact of the transition to PSAS on the accumulated net assets at the date of transition, January 1, 2011, and the comparative net assets is presented below. These accounting changes have been applied retroactively with restatement of prior years, except for the accounting standards contained in PS 3450, as this standard

(in thousands of dollars)

specifically prohibits retroactive application. The following changes have been implemented to comply with PSAS:

a) Consolidated statement of financial position

	January 1, 2011 $
Employee benefits - as previously stated	61,804
Initial recognition of unamortized gains/losses (ii)	(4,313)
Past service costs (iii)	6,797
Employee benefits January 1, 2011 - as restated	64,288

b) Consolidated statement of operations

	2011 $
Excess of revenue over expenses for the year - as previously stated	23,312
Adjustments to the excess of income over expenses for the year	
Conversion to PSAS	
Employee benefits	
Initial recognition of unamortized gains/losses (ii)	184
Past service costs (iii)	2,074
Excess of revenue over expenses for the year - as restated	25,570

c) Accumulated net assets

The impact of the transition on accumulated net assets is as follows:

	2012 $	2011 $
Accumulated net assets - Beginning of year - as previously stated	735,735	712,423
Adjustments to accumulated net assets		
Conversion to PSAS		
Employee benefits		
Discount rate (i)	2.50% - 4.00%	4.00% - 5.25%
Initial recognition of unamortized gains/losses (ii)	4,497	4,313
Past service costs (iii)	(4,723)	(6,797)
Net assets - Beginning of year - as restated	735,509	709,939

i) TCHC has revalued its pension benefit obligations using a discount rate referencing the TCHC's cost of borrowing. This change has been applied as of December 31, 2012.

(in thousands of dollars)

ii) TCHC has retroactively recognized unamortized actuarial gains and losses on the date of transition. Accumulated actuarial gains and losses are amortized over the expected average remaining service lives of the employees.

iii) TCHC has retroactively recognized unamortized past service costs relating to previous years' plan amendments, as PSAS requires these costs to be expensed immediately.

d) Exemptions

TCHC has elected to use the following exemptions:

- Retirement and post-employment benefits

  TCHC has elected to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in accumulated net assets.

- Investments in government partnerships

  TCHC has elected to apply the modified equity method on its investment in a jointly controlled entity on a prospective basis.

e) Adoption of financial instruments accounting standards

The transition to PSAS standards also included the adoption of PS 3450. TCHC has applied this standard prospectively from January 1, 2012 as required by this standard. Therefore, the consolidated financial statements of prior years, including comparative information, have not been restated.

4 Investments

Investments consist of the following:

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Fixed income securities (i)	194,273	185,234	175,359
Term deposits	1,673	-	43,949
	195,946	185,234	219,308
Less: Investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve (note 13)	(34,102)	(31,362)	(25,860)
Less: Investments for internally restricted purposes (note 16)	(50,320)	(37,223)	(25,997)
Less: Investments for unspent grants (note 14)	-	-	(22,950)
	111,524	116,649	144,501

(in thousands of dollars)

i) These investments consist of corporate fixed income securities and Canadian government fixed income securities with interest rates between 2.25% and 8.50% and maturity dates ranging from 2014 to 2049.

5 Account balances with City of Toronto

a) TCHC enters into transactions with the City in the normal course of business and includes payments for various services and supplies. Included in accounts receivable is $76,329 (December 31, 2011 - $75,510; January 1, 2011 - $76,320) receivable from the City and included in accounts payable and accrued liabilities is $9,477 (December 31, 2011 - $10,430; January 1, 2011 - $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 the long-term receivable from the City is $4,269 (December 31, 2011 - $4,269; January 1, 2011 - $4,269) for sick leave benefits (note 11(f)) and $17,056 (December 31, 2011 - $17,056; January 1, 2011 - $17,056) for other employment and post-employment benefits (note 11(h)).

c) The City provided $248,923 (2011 - $309,355) in subsidies to TCHC during 2012, including subsidies revenue received for construction services of $73 (2011 - $484). Subsidies revenue consists of the following:

	2012 $	2011 $
Garbage levy	5,410	5,680
Insurance expense	738	-
Operating expense	70,427	73,824
Mortgage principal and interest expense	77,823	77,885
Municipal tax expense	25,521	88,830
Educational tax savings (note 5(e))	6,855	-
Subsidies not passed through to tenants	186,774	246,219
Community sponsored program	26,451	25,700
Housing allowance roll-out program	2,535	3,677
Short-term rent supplement program	1,509	1,655
Mental health commission program	1,749	1,813
Administrative fees of rent supplement programs	6,344	6,396
Strong communities program	11,138	11,644
Commercial rent supplement program	12,423	12,251
Subsidies passed through to tenants	62,149	63,136
Total subsidies	248,923	309,355

Expenditures incurred with the City include, $34,852 (2011 - $32,461) for water and waste, $33,616 (2011 - $100,378) for property taxes and $1,858 (2011 - $2,048) for the mortgage interest charges paid to the City.

(in thousands of dollars)

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.

e) TCHC recorded a subsidy receivable from the City for $6,855 that was owed to TCHC as part of its 2012 property tax remittance. This represented the educational savings component of reduced taxes remitted by the City to the Province of Ontario due to decreases in assessed value of TCHC properties, as a result of said properties becoming property tax exempt. The City passed the savings from the reduction in remittances to the Province of Ontario directly to TCHC. The additional subsidy was received in March 2013.

6 Equity investments and loans receivable

	Equity investments			Loans receivable		
	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Equity in joint venture - DPDC (note 6(a)(i))	2,896	3,754	3,072	2,630	2,470	26,366
Equity in joint venture - PGDC (note 6(a)(ii))	10,020	2,737	(21)	1,968	33,315	3,983
Equity in joint venture - Library District Inc. (note 6(b))	2,570	724	-	-	-	-
Mortgages receivable (note 6(c))	-	-	-	11,974	11,974	11,965
Other investments (notes 6(d),(e))	-	-	1,548	-	-	-
	15,486	7,215	4,599	16,572	47,759	42,314
Less: Current portion of loans receivable				-	(31,347)	(23,705)
Long-term portion of loans receivable				16,572	16,412	18,609

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.

(in thousands of dollars)

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

	2012 $	2011 $
Total assets	4,999	8,494
Liabilities	2,103	4,740
Co-tenants' equity		
Contributed surplus	293	293
Surplus	2,603	3,461
Total liabilities and co-tenant's equity	4,999	8,494
Housing unit sales	1,835	35,493
Cost of sales	(725)	(23,087)
Other	(73)	571
Income for the year	1,037	12,977
Surplus - Beginning of year	3,461	2,780
Drawings	(1,895)	(12,296)
Surplus - End of year	2,603	3,461
Cash provided by (used in) operating activities	(1,218)	29,311
Cash used in financing activities	(1,562)	(22,903)
Cash provided by (used in) investing activities	119	(203)

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. Loans earn interest at the bank's prime rate plus 0.28%.

The co-tenancy has a $500 revolving demand facility and a $2,500 non-revolving loan with TCHC. Amounts drawn on the $500 revolving demand facility bear interest at variable interest rate of prime rate plus 0.50% per annum and the $2,500 non-revolving term loan bears interest at fixed interest rate at 6% per annum are due on demand and are subject to either voluntary or mandatory repayment, 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 date of the agreement. The facility is secured by the co-tenancy's land and assets and is guaranteed by RPDC and the co-tenant partners. As at December 31, 2012, TCHC has advanced $2,630 (December 31, 2011 - $2,470; January 1, 2011 - $26,366) to DPDC.

(in thousands of dollars)

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.

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

	2012 $	2011 $
Total assets	34,321	28,630
Liabilities	24,301	25,893
Co-tenants' equity		
Contributed capital (withdrawal)	(2,203)	3,845
Surplus (deficit)	12,223	(1,108)
	34,321	28,630
Sales	57,754	-
Cost of sales	(41,024)	-
Expenses	(3,399)	(1,087)
Income (loss) for the year	13,331	(1,087)
Deficit - Beginning of year	(1,108)	(21)
Surplus (deficit) - End of year	12,223	(1,108)
Cash provided by (used in) operating activities	7,894	(16,803)
Cash provided by (used in) financing activities	(6,065)	18,461
Cash used in investing activities	(1,948)	-

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 of each of the co-tenant partners. 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, 2012, TCHC has advanced $1,968 (December 31, 2011 - $33,315; January 1, 2011 - $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 plus additional rent for taxes and utilities. TCHC and the City have also signed an agreement with the Ontario government for it to provide up to $24,000 in Infrastructure Stimulus Funds to finance the construction of RPACC. TCHC has received $24,000 of this funding to date and

(in thousands of dollars)

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.

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.

Beginning on August 1, 2012, Artscape 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 RPACC.

b) 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 sold 50% interest in land to the developer for an agreed amount of $4,160 on March 29, 2012 (note 22).

	2012 $	2011 $
Total assets	20,260	10,362
Liabilities	14,302	9,638
Co-tenant's equity		
Contributed capital	6,564	1,187
Deficit	(606)	(463)
Total liabilities and co-tenant's equity	20,260	10,362
Expenses	144	462
Loss for the year	(144)	(462)
Deficit - Beginning of year	(462)	-
Deficit - End of year	(606)	(462)
Cash used in operating activities	(2,214)	(211)
Cash provided by financing activities	2,851	1,372
Cash used in investing activities	(402)	(1,194)

TCHC's equity in its joint venture, Library District Inc. has been reduced by the unrealized gain of $3,388 relating to 50% of the land contributed to Library District Inc. by TCHC (note 22).

(in thousands of dollars)

c) 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 4.88%. 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.

d) TCHC holds a 35% interest in Innoserv Inc., an end-to-end provider of a suite of solar energy services to the social housing sector, which include site assessments, implementation and maintenance of rooftop solar systems. TCHC accounts for its investment in Innoserv Inc. using the modified equity method. As at December 31, 2012, this investment has been recorded at $nil (December 31, 2011 - $nil; January 1, 2011 - $nil) given that shareholder's deficiency is $756 (December 31, 2011 - $1,377; January 1, 2011 - $1,094).

e) TCHC incorporated Allenbury Gardens Development Corporation on December 14, 2012, as a wholly owned subsidiary of TCHC. Allenbury Gardens Development Corporation has entered into a co-tenancy agreement with a developer for the revitalization project of Allenbury Gardens. There was no operating activity during 2012.

7 Housing projects acquired or developed

Housing projects acquired or developed consist of the following:

						December 31, 2012
	Opening cost - January 1 $	Net additions (disposals) $	Completed during the year $	Closing cost $	Accumulated depreciation $	Net - December 31 $
Land	374,175	(676)	(250)	373,249	-	373,249
Buildings	1,584,594	709	107,437	1,692,740	(641,487)	1,051,253
Plant	19,640	-	14,166	33,806	(3,228)	30,578
Housing projects under construction	119,761	102,135	(121,353)	100,543	-	100,543
	2,098,170	102,168	-	2,200,338	(644,715)	1,555,623

						December 31, 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)

						January 1, 2011
	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 acquired or developed include capitalized interest of $3,551 (December 31, 2011 - $2,472; January 1, 2011 - $8,150).

8 Improvements to housing projects

Improvements to housing projects consist of the following:

					December 31, 2012
	Opening cost - January 1 $	Net additions $	Closing cost $	Accumulated depreciation $	Net - December 31 $
Improvements to land and buildings	1,121,047	76,922	1,197,969	(335,766)	862,203
Furniture and equipment	118,951	6,702	125,653	(82,256)	43,397
Leasehold improvements	2,819	113	2,932	(2,796)	136
	1,242,817	83,737	1,326,554	(420,818)	905,736

					December 31, 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

(in thousands of dollars)

					January 1, 2011
	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

Improvements to housing projects include assets under capital leases with a carrying value of $12,239 (December 31, 2011 - $13,679; January 1, 2011 - $15,078).

9 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 statements of financial position as a housing project cost; therefore, when a unit is repurchased, no gain or loss is recorded. As at December 31, 2012, this obligation is recorded at $15,487 (December 31, 2011 - $15,580; January 1, 2011 - $15,339) and is included in TCHC's accounts payable and accrued liabilities in the consolidated statements of financial position. 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:

			December 31, 2012
	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	(4,796)	(266)	(5,062)
	9,478	(266)	9,212

(in thousands of dollars)

	December 31, 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

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

	2012 $	2011 $
Depreciation	266	266
Accretion of repurchase obligation	27	89
Operating, marketing and selling	59	60
Administrative and other	17	19
	369	434
Less: Sundry revenue	(52)	(51)
Less: Amortization of deferred capital contributions	(2)	(2)
Loss for the year	315	381

10 Bank loan

TCHC has a committed revolving credit facility of $200,000 (2011 - $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), with standby charges of 0.25% and interest charges at the bank's BA rate plus 1.10% for 2012 and 2011. As at December 31, 2012, short-term advances of $4,000 (December 31, 2011 - $70,860; January 1, 2011 - $63,860) have been used and are repayable at maturity on various dates throughout 2013. As at December 31, 2012, there are outstanding letters of credit of $5,610 (December 31, 2011 - $6,499; January 1, 2011 - $10,716), which reduce the amount available under this facility.

	2012 $	2011 $
Total standby charges	339	243
Total interest charge	1,249	1,797
	1,588	2,040

(in thousands of dollars)

11 Employee benefits

a) Employee benefits liabilities of TCHC

	2012 $	2011 $ (Restated)
Workers' Safety and Insurance Board (WSIB) obligations (note 11(e))	15,158	13,444
Sick leave benefits (note 11(f))	12,955	12,764
Severance/termination benefits (note 11(g))	1,371	1,122
Other employment and post-employment benefits (note 11(h))	24,546	17,720
Unamortized actuarial loss	(6,314)	(1,069)
Other benefits	47,716	43,981
Supplementary employee retirement plan (SERP) (note 11(i)(i))	26,636	24,301
Other benefits and SERP	74,352	68,282
Long-term disability obligation (note 11(f))	1,435	-
Employee benefits	75,787	68,282

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

	SERP		Other benefits	
	2012 $	2011 $ (Restated)	2012 $	2011 $ (Restated)
Accrued benefit obligation	31,070	28,244	54,030	45,050
Plan assets	(447)	(531)	-	-
Unamortized actuarial loss	(3,987)	(3,412)	(6,314)	(1,069)
	26,636	24,301	47,716	43,981
Period of amortization (years)	5	6	12	12

b) Continuity of TCHC's accrued benefit liabilities

	SERP		Other benefits	
	2012 $	2011 $ (Restated)	2012 $	2011 $ (Restated)
Balance - Beginning of year	24,301	22,618	43,981	41,670
Current service cost	730	725	1,250	1,124
Interest cost	1,296	1,358	1,168	1,171
Benefits paid	-	-	(1,238)	(1,177)
Actuarial loss	4,556	3,412	8,869	2,262
Funding contributions	(260)	(400)	-	-
Unamortized actuarial loss	(3,987)	(3,412)	(6,314)	(1,069)
Balance - End of year	26,636	24,301	47,716	43,981

(in thousands of dollars)

c) TCHC's employee benefits expense

	SERP		Other benefits	
	2012 $	2011 $ (Restated)	2012 $	2011 $ (Restated)
Current service cost	730	725	1,250	1,124
Interest cost	1,296	1,358	1,168	1,171
Amortization of actuarial gains	569	-	2,555	1,193
	2,595	2,083	4,973	3,488
Benefit expense related to terminations	n/a	n/a	148	133

d) Non-pension benefits payments

During the year, TCHC made non-pension benefits payments of approximately $1,238 (2011 - $1,177) directly to employees and retirees.

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, 2012 is based on an extrapolation of WSIB's statement of liabilities as at December 31, 2011 and 2010.

f) Liability for sick leave benefits

The accrued benefit obligation as at December 31, 2012 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, 2012, 787 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, 2012, a receivable from the City has been set up equal to the liability of the former THC of $4,678 (December 31, 2011 - $4,678; January 1, 2011 - $4,678), less $409 (December 31, 2011 - $409; January 1, 2011 - $409), which is an amount funded internally by TCHC (note 5(b)).

(in thousands of dollars)

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 $1,435 was recorded as at December 31, 2012 (December 31, 2011 - $nil; January 1, 2011 - $nil).

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 are 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. As at December 31, 2011, an amount of $17,056 (December 31, 2011 - $17,056; January 1, 2011 - $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 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 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 pensions to OMERS.

The most recent full actuarial valuation was completed as at December 31, 2011 and updated to December 31, 2012.

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.

(in thousands of dollars)

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, 2012 contribution rates were 8.3% to 12.8% (2011 - 7.4% to 10.7%). Total employer contributions for the year ended December 31, 2012 amounted to $7,475 (December 31, 2011 - $6,881; January 1, 2011 - $6,039) and are included in administration expenses on the consolidated statements of operations.

j) Actuarial assumptions

The accrued benefit obligation as at December 31, 2012 and December 31, 2011 are based on the most recent actuarial valuation completed. The most recent full actuarial valuation was performed for SERP by Morneau Shepell using information as at December 31, 2011. The most recent full actuarial valuation performed for all other benefits by Mercer using valuation information as at December 31, 2012.

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	
	2012 %	2011 %	2012 %	2011 %
Discount rates for benefit obligation				
Post-retirement and sick leave	-	-	2.70	4.75
Post-employment	-	-	2.50	4.00
Pension	4.00	4.50	-	-
Discount rates for benefit costs				
Post-retirement and sick leave	-	-	4.75	5.25
Post-employment	-	-	4.00	4.50
Pension	4.50	5.75	-	-
Rate of compensation increase	3.00	3.00	3.00	3.00
Inflation rate	2.00	2.50	2.50	3.00
Rate of return on plan assets				
Expected rate of return on plan assets	-	-	n/a	n/a
Actual rate of return on plan assets	$ 4	$ 1	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)

12 Project financing and debenture loans

Project financing consists of the following:

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Mortgages payable to			
Canada Mortgage and Housing Corporation (CMHC) (note 12(a))	370,889	391,870	412,051
Other (note 12(d))	361,336	381,721	391,585
Long-term loans payable to others (note 12(c))	57,909	63,402	129,524
Debenture loans (note 12(e))	407,072	348,738	322,799
Long-term loans payable to the City (note 12(b))	43,927	46,223	28,276
	1,241,133	1,231,954	1,284,235
Less: Current portion	(67,193)	(49,088)	(105,270)
	1,173,940	1,182,866	1,178,965

Interest incurred on long-term debt net of amount capitalized was $69,783 (December 31, 2011 - $75,539) and has been recorded in interest expense on the consolidated statements of operations. All mortgages (notes 12(a) and (d)) and the capital leasing facility (note 12(c)(iii)) have their underlying assets pledged as security. The remaining loans are unsecured.

The change in project financing is calculated as follows:

	2012 $	2011 $
New project financing	-	29,199
Imputed interest on loan	140	150
Debenture proceeds (i)	58,849	26,140
Less: Mortgage payments	(41,365)	(38,919)
Less: Loan payments	(7,929)	(68,652)
Less: Deferred financing costs	(516)	(200)
Net increase (decrease) in financing	9,179	(52,282)

i) Debenture proceeds represent bond proceeds that were used in construction projects in 2012 and 2011.

(in thousands of dollars)

Principal repayments are due as follows:

	CMHC (a) $	City (b) $	Others (c), (d) and (e) $	Total $
2013	21,965	2,189	43,039	67,193
2014	22,937	2,677	31,877	57,491
2015	23,896	2,419	31,847	58,162
2016	24,938	2,952	29,713	57,603
2017	26,028	2,466	29,266	57,760
Thereafter	251,125	31,224	665,596	947,945
Less: Deferred financing charges on project financing	-	-	(5,021)	(5,021)
	370,889	43,927	826,317	1,241,133

a) CMHC mortgages bear interest at rates between 2.65% and 11.00% (December 31, 2011 - 2.86% and 11.00%). These mortgages mature between 2012 and 2031.

b) Loans from the City bear interest at rates between 2.75% and 11.00% (December 31, 2011 - 2.75% and 11.00%). These loans mature between 2017 and 2042.

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

i) As at December 31, 2012, TCHC has a non-revolving, 20-year amortizing construction bridge term loan of $37,936 (December 31, 2011 - $40,432; January 1, 2011 - $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% (December 31, 2011 - 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.

As at December 31, 2012, the notional value of the interest rate swap was $37,936 (December 31, 2011 - $40,432; January 1, 2011 - $42,928) and the fair value was an unrealized loss of approximately $4,698 (December 31, 2011 - $6,119; January 1, 2011 - $4,193), which is recorded as a liability on the consolidated statements of financial position.

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% (December 31, 2011 - 4.58%). The unamortized balance will be due at maturity in 2013. As at December 31, 2012, the term loan balance was $12,409 (December 31, 2011 - $12,816; January 1, 2011 - $13,205).

(in thousands of dollars)

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, 2012, $7,337 (December 31, 2011 - $9,928; January 1, 2011 - $12,390) was outstanding on this facility.

d) Other mortgages bear interest at rates between 2.11% and 12.75% (December 31, 2011 - 2.68% and 12.75%). These mortgages mature between 2016 and 2048.

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 (December 31, 2011 - $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 $67 (2011 - $58) was recorded.

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

TCHC has used $161,704 (December 31, 2011 - $102,855) of this loan for long-term financings of social housing projects. The balance of the loan of $38,296 (December 31, 2011 - $97,145) 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 2012, amortization of $32 (2011 - $30) was recorded.

Debenture loans consist of the following:

	December 31, 2012		
	Project financing $	Debenture loan $	Total $
Proceeds from issuance of debentures	411,704	38,296	450,000
Deferred financing costs	(4,632)	(389)	(5,021)
	407,072	37,907	444,979

(in thousands of dollars)

			December 21, 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

			January 1, 2011
	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

13 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:

	2012 $	2011 $
Balance - Beginning of year	31,362	25,860
Contributions during the year	8,646	8,308
Investment income	1,489	1,174
Less: Transfer to deferred capital contributions for expenditures (note 14)	(7,395)	(3,980)
Balance - End of year	34,102	31,362

14 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 statements of operations on the same basis as the asset to which it relates is depreciated.

(in thousands of dollars)

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

	2012 $	2011 $
Balance - Beginning of year	546,417	523,304
Restricted grants for housing projects	46,988	60,756
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditure (note 13)	7,395	3,980
Less: Amortization of deferred capital contributions	(44,734)	(41,623)
Balance - End of year	556,066	546,417

Provincial affordability housing grants for the development of three projects are paid monthly and have been set up as a grant receivable of $10,145 as at December 31, 2012 (December 31, 2011 - $10,559; January 1, 2011 - $10,954).

Deferred capital contributions include unspent funds of $nil (December 31, 2011 - $nil; January 1, 2011 - $22,950), which are shown in the consolidated statements of financial position as investments for unspent restricted grants.

15 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 complementary 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.

The following is TAHF's financial position:

	2012 $	2011 $
Bank balance - January 1	1,338	1,069
Grants received	-	1,659
Interest earned	16	21
Appreciation on repayments	66	47
Sundry expenses	(6)	2
Increase in prepayments	(26)	-
Increase in loan receivable	(5)	(1,460)
Bank balance - December 31	1,383	1,338

(in thousands of dollars)

TCHC administers the operations of the TAHF. TAHF, a not-for-profit incorporated entity without share capital, provides financial support to qualified individuals so that they may purchase eligible homes. Funding to provide financial support is provided by the City. TAHF assets include cash and loans receivable totalling $6,770 (December 31, 2011 - $6,694; January 1, 2011 - $4,966). Funding received from the City totals $6,595 (December 31, 2011 - $6,595; January 1, 2011 - $4,936). Given that TCHC only administers TAHF and does not have equity interest in TAHF and, accordingly, it has not been consolidated in these financial statements.

16 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:

	2012			2011
	State of Good Repair Fund $	Regent Park Development Reserve Fund $	Total $	Total $
Transfers from operations for the year consist of				
Capital expenditures	(116)	(2,217)	(2,333)	(9,755)
Operating surplus transfer	11,989	2,000	13,989	19,379
Investment income earned	-	1,256	1,256	1,630
Fair value adjustments for investments held	-	185	185	(28)
Net transfers for the year	11,873	1,224	13,097	11,226
Balance - Beginning of year	7,379	29,844	37,223	25,997
Balance - End of year	19,252	31,068	50,320	37,223

(in thousands of dollars)

17 Commitments

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

	$
2013	1,868
2014	1,408
2015	1,283
2016	863
2017	860
Thereafter	12,092
	18,374

b) On TCHC's behalf, the City and Social 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.

18 Contingencies

a) TCHC will be liable to repay certain CMHC and City loans, not yet formally forgiven, amounting to $3,826 and $6,804 (December 31, 2011 - $4,095 and $7,011; January 1, 2011 - $4,364 and $7,439), respectively, which are included in deferred capital contributions (note 14), 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, 2012, 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 from insurers with respect to the 200 Wellesley property, which was damaged in a fire in fiscal 2010. In 2012, TCHC has received proceeds of $3,520 (December 31, 2011 - $2,879; January 1, 2011 - $550). As at December 31, 2012, TCHC has an outstanding claim of $6,452 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 consolidated 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 2013.

19 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 manage both 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 the budget. As at December 31, 2012, TCHC has met its objective of having sufficient liquidity to meet its current obligations.

(in thousands of dollars)

20 Regent Park Energy Inc.

As at January 1, 2011, TCHC's wholly owned subsidiary, TCHE, had a 60% interest in the heating and cooling plant and operations, which operates through a nominee corporation, RPEI. On January 5, 2012, TCHE purchased the remaining 40% interest in RPEI, and TCHC consolidated the results of RPEI in the consolidated financial statements for the year ended December 31, 2012.

The remaining 40% was acquired for $13,500 plus $150 in acquisition related costs. The total net purchase price of $13,650 was allocated to the assets and liabilities as follows:

	$
Assets	
Cash	60
Prepaid expenses	3
Accounts receivable	188
Housing projects	11,639
	11,890
Accounts payable and accrued liabilities	(279)
	11,611

The resulting purchase premium of $2,039 has been charged to expenses for the year ended December 31, 2012.

21 Financial instruments and risk management

Financial instruments

TCHC's financial instruments consist of cash, investments, accounts receivable, loans receivable, grants receivable, receivable from the City, bank loan, accounts payable and accrued liabilities, project financing, debenture loans and interest rate swap. The fair value investments and the interest rate swap are based on observable inputs or are calculated base on best estimates of valuation assumptions. Accounts receivable and accounts payable and accrued liabilities are believed to have carrying values equal to their fair values due to their short-term nature. All the financial instruments are valued at amortized cost.

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

(in thousands of dollars)

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 within the fair value hierarchy:

				December 31, 2012
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments	111,524	-	-	111,524
Interest rate swap	-	4,698	-	4,698

				December 31, 2011
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments	116,649	-	-	116,649
Interest rate swap	-	6,119	-	6,119

				January 1, 2011
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments	144,501	-	-	144,501
Interest rate swap	-	4,193	-	4,193

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 risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on TCHC's financial performance.

i) Market risk

TCHC is exposed to market risk through the fluctuation of financial instrument fair values due to changes in market prices.

ii) Interest rate risk

The interest rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates because of changes in market interest rates. TCHC is exposed to interest rate risk as a result of cash balances and debt. Of these risks, TCHC's principal exposure is that increases in the floating interest rates on its debt, if unmitigated, could lead to decreases in cash flow and excess of expenditures over revenues. TCHC has effectively fixed its interest rate on the majority of floating rate long-term debt by entering into an interest rate swap.

(in thousands of dollars)

As at December 31, 2012, the TCHC's total exposure to interest rate risk is $4,000. TCHC's estimate of the effect on net assets as at December 31, 2012 due to a 1% increase or decrease in the interest rate, with all other variables held constant, would approximately amount to an increase or decrease of $40. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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 another 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.

TCHC partially mitigates this through balancing its fixed income securities between short and long-term durations on its investments. This risk is substantially mitigated as TCHC does not invest in equities, but only cash, cash equivalents and high grade corporate and government fixed income securities. Market price fluctuations would be substantially caused by charges in the general levels of market interest rates.

iii) Credit risk

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

As at December 31, 2012, the following accounts receivable were past due but not impaired:

	30 days $	60 days $	90 days $	120 days $	Over 120 days $	Total $
Accounts receivable	61,705	3,135	4,380	1,791	37,919	108,930

iv) Liquidity risk

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

(in thousands of dollars)

The table below is a maturity analysis of TCHC's financial liabilities:

	Up to 6 months $	More than 6 months up to 1 year $	More than 1 year up to 5 years $	More than 5 years $	Total $
Bank indebtedness (note 10)	4,000	-	-	-	4,000
Accounts payable and accrued liabilities	49,210	3,010	47,327	31,840	131,387
Obligations under operating leases (note 17)	934	934	4,414	12,092	18,374
Project financing (note 12)	54,965	12,228	289,456	884,484	1,241,133
	109,109	16,172	341,197	928,416	1,394,894

22 Gain on sale of housing projects

TCHC sold stand-alone units in 2012 for net proceeds of $5,135, which was transferred to the State of Good Repair Fund (note 16(i)). The net book value and deferred capital contributions liability associated with the stand-alone units were $985 and $808, respectively. As a result of the sales, TCHC recognized a gain of $4,960.

During 2012, TCHC also made a non-monetary contribution of land to a joint venture, Library District Inc., for $8,320 (note 6(b)) that was measured at fair value. TCHC contributed 50% of land to its wholly owned subsidiary, RLDC. The remaining 50% was sold to its co-tenant partner, resulting in a gain of $3,388.

23 Salaries and benefits

The following chart reflects the total salaries and benefits recognized in these consolidated financial statements as follows:

	2012 $	2011 $
Salaries and benefits administration	53,979	53,217
Salaries and benefits in operations and maintenance	56,185	57,838
Salaries and benefits in plant	391	210
Total salaries and benefits reflected in the consolidated statements of operations	110,555	111,265
Salaries and benefits included in additions as capitalized in housing projects acquired or developed	2,563	2,723
Salaries and benefits included in additions as capitalized in improvement to housing projects	9,501	9,687
Total salaries and benefits	122,619	123,675

(in thousands of dollars)

24 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.

25 Subsequent events

On April 4, 2013, a non-legally binding commitment between TCHC and Infrastructure Ontario, whose sole shareholder is the Province of Ontario, was unanimously approved by City Council of the City to refinance 18 TCHC properties with mortgages scheduled for renewal in 2013. TCHC will receive mortgage refinancing proceeds of $154,704, of which $60,447 will be used to pay out the maturing mortgages of 18 refinanced properties and $94,257 will be restricted for investment in future capital assets. Two of the 18 refinanced properties will be refinanced on a floating interest rate basis for a term of five years, whereas the other 16 refinanced properties will be refinanced at a fixed rate for a term of 30 years.

On April 4, 2013, the City approved the funding of $4,800 from the Province of Ontario for 40 units for a construction project. The City issued a conditional approval on March 5, 2013, which was contingent on the commencement of the construction project within 120 days of signing the Contribution Agreement, which is anticipated to be in June 2013.