

Consolidated Financial Statements

Toronto Community Housing Corporation

December 31, 2006

AUDITORS' REPORT

To the Directors of
Toronto Community Housing Corporation

We have audited the consolidated balance sheet of **Toronto Community Housing Corporation** as at December 31, 2006 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
March 29, 2007 [except as to note 21,
which is as of May 7, 2007].

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto Community Housing Corporation

CONSOLIDATED BALANCE SHEET

[000's]

As at December 31

	2006	2005
	\$	\$
ASSETS		
Current		
Cash	2,429	3,469
Investments [note 3]	79,417	57,282
Accounts receivable [note 4[b]]	53,678	81,972
Prepaid expenses	3,965	3,567
Total current assets	139,489	146,290
Investments for capital asset replacement reserve [note 3]	45,497	56,334
Investments for internally restricted purposes [note 3]	115,544	105,206
Receivable from the City of Toronto [note 4[a]]	20,517	20,517
Housing projects [note 5]	1,351,312	1,362,475
Other capital assets [note 6]	422,433	313,585
Guaranteed Equity Housing Project [note 7]	10,810	11,077
Prepaid lease	1,524	1,580
	2,107,126	2,017,064
LIABILITIES AND NET ASSETS AND SHARE CAPITAL		
Current		
Accounts payable and accrued liabilities [notes 4[b] and 7]	107,085	105,377
Tenants' deposits and rents received in advance	8,037	7,906
Deferred revenue	2,617	1,800
Current portion of deferred revenue on long-term leases	71	71
Current portion of project financing [note 10]	32,858	29,689
Total current liabilities	150,668	144,843
Capital asset replacement reserve [note 11]	45,497	56,334
Deferred revenue on long-term leases	2,251	2,047
Employee benefits [note 9]	53,116	45,192
Project financing [note 10]	981,272	971,309
Deferred capital contributions [note 12]	311,497	311,883
Total liabilities	1,544,301	1,531,608
Commitments and contingencies [notes 16 and 18]		
Net assets and share capital		
Share capital: authorized and issued - 100 common shares	1	1
Invested in capital assets [note 13]	448,118	363,179
Surplus - internally restricted [note 14]	115,544	105,206
Unrestricted surplus (deficit)	(838)	17,070
Total net assets and share capital	562,825	485,456
	2,107,126	2,017,064

See accompanying notes

Approved on behalf of the Board:



 Director Director



Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF OPERATIONS
[000's]

Year ended December 31

	2006	2005
	\$	\$
REVENUE		
Subsidies <i>[note 15]</i>	303,333	301,365
Rent		
Residential	258,738	258,115
Commercial	8,244	8,048
Amortization of deferred capital contributions	22,616	21,384
Parking, laundry and cable fees	17,315	17,278
Interest income	4,563	7,143
Other	3,212	2,309
	618,021	615,642
EXPENSES		
Operating and maintenance <i>[note 9]</i>	226,801	220,098
Municipal taxes	111,136	115,294
Mortgage interest	64,145	67,022
Administration <i>[notes 9 and 16]</i>	58,109	53,426
Depreciation	70,856	63,924
Rent supplement program <i>[note 15]</i>	20,384	22,809
Guaranteed Equity Housing Project - deficit <i>[note 7]</i>	331	486
	551,762	543,059
Net operating income before the following	66,259	72,583
Gain on sale of properties	—	66
Change in unrealized loss on investments	11,110	3,140
Excess of revenue over expenses for the year	77,369	75,789

See accompanying notes



Toronto Community Housing Corporation

**CONSOLIDATED STATEMENT OF
CHANGES IN NET ASSETS**

[000's]

Year ended December 31

	2006			
	Invested in capital assets \$	Surplus - internally restricted \$	Unrestricted surplus (deficit) \$	Total \$
Net assets, beginning of year	363,179	105,206	17,070	485,455
Excess of revenue over expenses for the year	—	—	77,369	77,369
Change in net assets invested in capital assets <i>[note 13]</i>	84,939	—	(84,939)	—
Change in internally restricted net assets <i>[note 14]</i>	—	10,338	(10,338)	—
Net assets, end of year	448,118	115,544	(838)	562,824

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

See accompanying notes



Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[000's]

Year ended December 31

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	77,369	75,789
Add (deduct) items not involving cash		
Amortization of deferred capital contributions	(22,616)	(21,384)
Depreciation	71,123	64,191
Gain on sale of properties	—	(66)
Change in unrealized loss on investments	(11,110)	(3,140)
Change in unrealized loss on investments related to capital asset replacement reserve	(2,662)	(1,123)
	112,104	114,267
Changes in non-cash working capital balances related to operations		
Accounts receivable	28,294	(17,485)
Prepaid expenses	(398)	(112)
Prepaid lease	56	54
Accounts payable and accrued liabilities	(16,429)	4,989
Tenants' deposits and rents received in advance	131	(264)
Deferred revenue	817	1,800
Deferred revenue on long-term leases	204	(462)
Net increase in employee benefits	7,924	4,256
Cash provided by operating activities	132,703	107,043
INVESTING ACTIVITIES		
Net decrease (increase) in investments	(5,202)	1,984
Acquisition of housing projects	(33,567)	(24,201)
Purchase of other capital assets	(134,974)	(75,484)
Proceeds on sale of housing projects	—	679
Cash used in investing activities	(173,743)	(97,022)
FINANCING ACTIVITIES		
Increase in accounts payable and accrued liabilities related to the purchase of housing projects or other capital assets	18,137	2,482
Repayment of project financing	(36,469)	(28,417)
New project financing assumed	49,601	—
Revenue deferred for capital asset replacement reserve	7,060	6,857
Investment income earned on capital asset replacement reserve	496	3,860
Restricted grants for housing projects	1,175	8,120
Cash provided by (used in) financing activities	40,000	(7,098)
Net increase (decrease) in cash during the year	(1,040)	2,923
Cash, beginning of year	3,469	546
Cash, end of year	2,429	3,469

See accompanying notes



Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

1. THE COMPANY AND ITS MISSION

Toronto Community Housing Corporation ["TCHC"] was incorporated under the provisions of the Ontario Business Corporations Act on December 14, 2000 as Metro Toronto Housing Corporation. On October 9, 2001, articles of amendment were filed to effect a name change to Toronto Community Housing Corporation. TCHC is wholly owned by the City of Toronto [the "City"]. In establishing TCHC, the City approved a Shareholder Direction that set guiding principles, high-level objectives and expected accountability to the City. The Shareholder Direction establishes TCHC as a non-profit corporation operating at arm's length from the City, under the direction of an independent Board of Directors.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for non-profit oriented organizations, unless otherwise directed to specific accounting recommendations of the Public Sector Accounting Board. The significant accounting policies are summarized below:

Basis of consolidation

These consolidated financial statements include the assets, liabilities and results of operations of TCHC and its wholly-owned subsidiaries:

Don Mount Court Development Corporation
2001064 Ontario Inc.
Access Housing Connections Inc.
Regent Park Development Corporation
Housing Services Inc.

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.



Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

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

Investments

Investments are recorded at market value. Investment income includes interest, dividends, and realized and unrealized gains and losses. Investment income related to operations is accounted for in the consolidated statement of operations. Investment income earned on externally restricted funds is credited directly to the funds on the consolidated balance sheet.

TCHC applies the equity basis of accounting for its investment in an entity subject to significant influence.

Derivative financial instruments

Derivative financial instruments are contracts that provide the opportunity to exchange cash flows that are determined by applying certain rates, indices or changes to notional contract amounts. TCHC uses interest rate swaps to manage exposure to fluctuations in interest rates. These swaps are used for hedging an on-balance sheet liability or a future contractual obligation. These swaps are recognized and measured at fair value, with gains and losses recognized immediately in the consolidated statement of operations.

Capital assets

Housing projects are recorded at cost less accumulated depreciation. Cost includes the original cost of land and buildings, other related costs [including capitalized interest] and net operating expenses up to the interest adjustment date [date of substantial completion]. The cost of major improvements necessary to renovate and refurbish buildings which are financed by mortgages are also included in housing project costs. Depreciation is calculated using the straight-line method and is based on the estimated useful lives of the housing projects up to a maximum of 50 years.

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

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

Deferred capital contributions

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



Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Employee-related costs

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

- [i] TCHC's contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;
- [ii] The costs of termination benefits and compensated absences are recognized when an event that obligates TCHC occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- [iii] The costs of other employee benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Actuarial gains and losses are recognized as incurred;
- [iv] Employee future benefit liabilities are discounted using current interest rates on long-term bonds;
- [v] Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment, which is between 10 and 12 years; and
- [vi] The costs of the workplace safety and insurance obligations are actuarially determined and expensed. Actuarial gains and losses are recognized as incurred.

Foreign exchange translation

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

Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

3. INVESTMENTS

Investments consist of the following:

	2006	2005
	\$	\$
		[000's]
Pooled investment funds		
Global Equity Fund	53,221	37,814
Fixed Income Fund	52,492	74,845
Canadian Equity Fund	38,454	30,372
Canadian Bond Fund	14,760	—
U.S. Money Market Fund	—	461
	158,927	143,492
Cash management funds	80,803	72,765
Other	728	2,565
	240,458	218,822
Less investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve <i>[note 11]</i>	45,497	56,334
Less investments for internally restricted purposes <i>[note 14]</i>	115,544	105,206
	79,417	57,282

4. ACCOUNT BALANCES WITH CITY OF TORONTO

[a] The City has agreed to fund certain employee benefit costs relating to the former Toronto Housing Corporation ["THC"] as the former company previously contributed to the City's sick pay reserve fund and payroll benefits plan reserve fund. TCHC has recorded a receivable in connection with the expected recoveries of these employee benefit costs from the City.

Included in receivable from the City is \$3,870,000 [2005 - \$3,870,000] for sick leave benefits less \$409,000 [2005 - \$409,000], being an amount funded internally by TCHC *[note 9[f]]*, and \$17,056,000 [2005 - \$17,056,000] for other employment and post-employment benefits *[note 9[h]]*.

[b] Included in accounts receivable is approximately \$38,253,000 [2005 - \$77,158,000] receivable from the City, and included in accounts payable and accrued liabilities is approximately \$10,641,000 [2005 - \$8,243,000] payable to the City, which arose in the normal course of operations.

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

5. HOUSING PROJECTS

Housing projects consist of the following:

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

	2005			
	January 1	Additions (disposals)	Completed during the year	December 31
	\$	\$	\$	\$
	[000's]			
Land	345,890	(9)	—	345,881
Buildings	1,282,550	(28)	11,124	1,293,646
Equipment	22,168	—	—	22,168
Housing projects under construction	8,005	24,201	(11,124)	21,082
	1,658,613	24,164	—	1,682,777
Less accumulated depreciation	276,076	44,226	—	320,302
	1,382,537	(20,062)	—	1,362,475



Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

6. OTHER CAPITAL ASSETS

Other capital assets consist of the following:

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

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

Other capital assets include assets under capital leases totalling \$10,235,756 [2005 - nil] [note 10[b][iii]].

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

7. GUARANTEED EQUITY HOUSING PROJECT

TCHC owns a building which has Guaranteed Equity Units, each consisting of rights that include membership in the Equity Corporation and the right to occupy a particular suite in the building, that were sold to seniors under terms which guarantee repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the Consumer Price Index. This obligation is recorded at \$14,895,000 [2005 - \$14,208,000] and is included in TCHC's accounts payable and accrued liabilities in these consolidated financial statements. The fair market value of this obligation is not determinable as there are no defined repayment terms.

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

The Guaranteed Equity Housing Project assets consist of the following:

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

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

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

	2006	2005
	\$	\$
	[000's]	
Depreciation	267	267
Operating, marketing and selling	56	63
Equity appreciation	38	135
Administrative and other	37	87
	398	552
Less sundry revenue	65	64
Less amortization of deferred capital contributions	2	2
Deficit	331	486

8. SHORT-TERM BANK FACILITIES

TCHC has a revolving credit facility of \$20,000,000 that is available for short-term advances and letter of credit openings. Short-term advances are repayable on demand and incur interest charges at the bank's prime rate less 0.70%. As at December 31, 2006, no short-term advances have been taken and there was an outstanding letter of credit in the amount of \$1,951,400 [2005 - nil].

9. EMPLOYEE BENEFITS

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

	2006	2005
	\$	\$
	[000's]	
Workers' Safety and Insurance Board ["WSIB"] obligations [note 9[e]]	12,845	13,578
Sick leave benefits [note 9[f]]	9,339	7,264
Severance/termination benefits [note 9[g]]	2,625	2,868
Other employment and post-employment benefits [note 9[h]]	24,804	21,482
	49,613	45,192
Supplementary employee retirement plan ["SERP"] [note 9[i]]	3,503	—
	53,116	45,192

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Additional information about TCHC's SERP and other benefit plans as at December 31, 2006 is as follows:

	SERP		[000's]	Other Benefits	
	2006	2005		2006	2005
	\$	\$		\$	\$
Accrued benefit obligation	22,423	—		43,579	45,192
Unamortized past service cost	(18,920)	—		6,034	—
Balance sheet liability	3,503	—		49,613	45,192

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

	SERP		[000's]	Other Benefits	
	2006	2005		2006	2005
	\$	\$		\$	\$
Balance, beginning of year	—	—		45,192	40,936
Current service cost	704	—		668	694
Interest cost	985	—		1,178	1,284
Expected benefits paid	—	—		(777)	(789)
Amortization of past service costs	1,814	—		(226)	—
Actuarial loss	—	—		3,578	3,067
Balance, end of year	3,503	—		49,613	45,192

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

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

	SERP		[000's]	Other Benefits	
	2006	2005		2006	2005
	\$	\$		\$	\$
Current service cost	704	—		668	694
Interest cost	985	—		1,178	1,284
Amortization of past service costs	1,814	—		(226)	—
Actuarial loss	—	—		3,578	3,067
	3,503	—		5,198	5,045

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[d] During the year, TCHC made non-pension benefits payments directly to employees and retirees of approximately \$6,345,000 [2005 - \$5,365,000].

[e] Workplace safety and insurance obligations

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

Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2005 and the accrued benefit obligation as at December 31, 2006 is based on an extrapolation of the December 31, 2005 valuation.

[f] Liability for sick leave benefits

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

In order to provide for this past service liability, the former THC participated in a reserve fund established by the City. Since the former THC participated in the City's reserve fund, a receivable from the City has been set up equal to the liability of the former THC of \$3,870,000 [2005 - \$3,870,000], less \$409,000 [2005 - \$409,000], being an amount funded internally by TCHC *[note 4[a]]*.

Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The accrued benefit obligation as at December 31, 2006 is based on the most recent actuarial valuation that was completed as of December 31, 2006.

[g] Severance/termination benefits

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

Toronto Community Housing Corporation

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[h] Other employment and post-employment benefits

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

The former THC participated in a payroll benefits plan reserve fund established by the City to provide for future benefits to all City employees and retirees. An amount of \$17,056,000 [2005 - \$17,056,000], representing the liability portion relating to the former THC, is recorded as a receivable from the City [note 4[a]].

Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The accrued benefit obligation as at December 31, 2006 is based on the most recent actuarial valuation that was completed as of December 31, 2006.

[i] Other plans

[i] SERP

In 2006, TCHC established a SERP for current eligible employees whose pension benefits were frozen in the Public Service Pension Plan or the Ontario Public Service Employees' Union Pension Plan as of January 1, 2001. A current eligible employee is one who was an active employee on February 15, 2006 [the date this benefit was approved by the Board of Directors] and had transferred employment on January 1, 2001 from the Metro Toronto Housing Authority to TCHC and became a member of the Ontario Municipal Employees' Retirement Fund ["OMERS"]. This plan provides a supplementary benefit so that the total pension benefit on retirement would have been the same as that received had the employee been able to transfer their pension to OMERS.

Due to the complexities in valuing the liabilities of the plans, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of February 15, 2006. The accrued benefit obligation as at December 31, 2006 is based on an extrapolation of the February 15, 2006 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 highest five years' average earnings. Employees and employers contribute jointly to the plan.

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

Depending on the individual's normal retirement age and pensionable earnings, 2006 contribution rates were 6.5% to 9.6% [2005 - 6% to 8.8%]. Total employer contributions for the year ended December 31, 2006 amounted to \$5,359,000 [2005 - \$4,022,000] and are included in administration expenses on the consolidated statement of operations.

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

	SERP		Other Benefits	
	2006	2005	2006	2005
	%	%	%	%
Discount rates for benefit obligation				
- post retirement and sick leave	—	—	5.25	5.00
- post employment	—	—	4.75	4.75
- pension	5.25	—	—	—
Discount rates for benefit costs				
- post retirement and sick leave	—	—	5.00	6.00
- post employment	—	—	4.75	5.25
- pension	5.25	—	—	—
Rate of compensation increase	3.00	—	3.00	3.00
Health care inflation	—	—	8.27	8.10

For measurement purposes, an 8.27% [2005 - 8.10%] annual rate of increase in the per capita cost of covered health care benefits was assumed. The rate is assumed to decrease gradually to 5.0% [2005 - 5.2%] by 2013 and remain at that level thereafter.

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10. PROJECT FINANCING

Project financing consists of the following:

	2006	2005
	\$	\$
	[000's]	
Long-term loans payable to the City of Toronto	35,615	35,602
Long-term loans payable to others	47,972	—
Mortgages payable to		
Canada Mortgage and Housing Corporation	478,232	495,181
Others	452,311	470,215
	1,014,130	1,000,998
Less current portion	32,858	29,689
	981,272	971,309

The change in project financing is calculated as follows:

	2006	2005
	\$	\$
	[000's]	
New loans assumed	49,601	—
Less mortgage payments	(30,801)	(28,221)
Less mortgages retired	(5,635)	(137)
Less loan payments	(33)	(59)
	13,132	(28,417)

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As at December 31, 2006, \$22,000,000 of BAs were outstanding in connection with Facility A. The notional value of the interest rate swap was \$22,000,000 and the fair value was a loss of approximately \$310,000.

- [ii] In September 2006, TCHC entered into a seven-year unsecured term loan of \$14,650,000 to refinance certain of its buildings and renovations. Interest is payable at the yield on the Government of Canada bonds rate maturing closest to the maturity date of the term plus 0.68%. As at December 31, 2006, the yield rate was 4.16%. TCHC may choose to make repayments semi-annually, quarterly or monthly at its option. The unamortized balance will be due at maturity. As at December 31, 2006, the term loan was \$14,650,000.
- [iii] TCHC has a capital leasing facility of \$20,000,000 with interest payable at 5.11% to finance a portion of its appliance replacement program. As at December 31, 2006, drawings on this facility totalled \$11,321,757 [2005 - nil]. Repayment will start in August 2007 at \$253,169 per month for a period of 96 months.
- [c] Canada Mortgage and Housing Corporation ["CMHC"] mortgages bear interest at rates between 3.5% and 11.0% [2005 - 5.0% and 12.0%]. These mortgages mature between 2007 and 2032 [2005 - 2007 and 2032].
- [d] Other mortgages bear interest at rates between 3.3% and 13.3% [2005 - 4.4% and 13.3%]. These mortgages mature between 2007 and 2028 [2005 - 2006 and 2028].

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11. CAPITAL ASSET REPLACEMENT RESERVE

Under the terms of an agreement with the Ontario Ministry of Municipal Affairs and Housing, TCHC is required to maintain a reserve for major repairs and maintenance and contribute annually to the reserve from its operations. The income earned on the investment of the reserve funds is also added to the reserve.

The change in the capital asset replacement reserve is due to the following:

	2006	2005
	\$	\$
	[000's]	
Balance, beginning of year	56,334	61,697
Revenue deferred during the year	7,060	6,857
Investment income	496	3,860
Change in unrealized loss on investments	2,662	1,123
Less transfer to deferred capital contributions for approved expenditures [note 12]	(21,055)	(17,203)
Balance, end of year	45,497	56,334

12. DEFERRED CAPITAL CONTRIBUTIONS

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

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

	2006	2005
	\$	\$
	[000's]	
Balance, beginning of year	311,883	307,952
Restricted grants for housing projects	1,175	8,120
Contribution from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve [note 11]	21,055	17,203
Less unamortized contributions related to housing projects sold	—	(8)
Less amortization of deferred capital contributions	(22,616)	(21,384)
Balance, end of year [note 18]	311,497	311,883

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13. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets consist of the following:

	2006	2005
	\$	\$
	[000's]	
Housing projects <i>[note 5]</i>	1,351,312	1,362,475
Other capital assets <i>[note 6]</i>	422,433	313,585
Less project financing <i>[note 10]</i>	(1,014,130)	(1,000,998)
Less deferred capital contributions <i>[note 12]</i>	(311,497)	(311,883)
	448,118	363,179

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

	2006	2005
	\$	\$
	[000's]	
Acquisition of housing projects <i>[note 5]</i>	33,567	24,201
Purchase of other capital assets <i>[note 6]</i>	134,974	75,484
Unamortized contributions related to housing projects sold <i>[note 12]</i>	—	8
Repayment of project financing <i>[note 10]</i>	36,469	28,417
Amortization of deferred capital contributions <i>[note 12]</i>	22,616	21,384
Less new project financing assumed <i>[note 10]</i>	(49,601)	—
Less restricted grants for housing projects <i>[note 12]</i>	(1,175)	(8,120)
Less transfer from capital asset replacement reserve <i>[note 11]</i>	(21,055)	(17,203)
Less cost of housing projects sold	—	(613)
Less depreciation of housing projects and other capital assets <i>[notes 5 and 6]</i>	(70,856)	(63,924)
	84,939	59,634

Toronto Community Housing Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. NET ASSETS INTERNALLY RESTRICTED

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

Unrestricted Contingency Reserve Fund

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

Don Mount Court Reserve Fund

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

Regent Park Development Reserve Fund

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



Toronto Community Housing Corporation

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Net assets internally restricted consist of the following:

	Unrestricted Contingency Reserve Fund \$	Don Mount Court Reserve Fund \$	Regent Park Development Reserve Fund \$	2006 Total \$	2005 Total \$
					[000's]
Transfers from operations for the year consist of					
Operating surplus transfer	17,070	—	—	17,070	30,413
Transfer to operating surplus to close reserve	—	—	—	—	(137)
Investment	—	—	—	—	(500)
Investment income earned	338	53	217	608	4,637
Market value adjustments for investments held	5,431	22	1,036	6,489	2,050
Transfers to unrestricted surplus for expenses incurred	—	(5,913)	(8,207)	(14,120)	(12,573)
Glenmaple financing	291	—	—	291	77
Net transfers for the year	23,130	(5,838)	(6,954)	10,338	23,967
Balance, beginning of year	72,423	6,430	26,353	105,206	81,239
Balance, end of year	95,553	592	19,399	115,544	105,206



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15. SUBSIDIES

TCHC administers various programs on behalf of the City. TCHC incurred costs of \$10,421,000 [2005 - \$11,757,000] for the commercial rent supplement program, \$9,840,000 [2005 - \$10,553,000] for the strong communities program, \$75,000 [2005 - nil] for the housing allowance pilot program and \$48,000 [2005 - nil] for the housing allowance roll-out program. Subsidies offsetting these net costs received from the City have been recorded in revenue. The housing program subsidies are based on mortgage principal and interest and municipal taxes payments for housing projects funded under the TCHC Operating Agreement with the City. For these projects, the municipal taxes expense for 2006 totalled \$103,405,000 [2005 - \$107,280,000] and the mortgage principal and interest payments for 2006 totalled \$81,563,000 [2005 - \$83,065,000].

16. LEASE COMMITMENTS

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

	\$ [000's]
2007	3,998
2008	3,998
2009	3,816
2010	3,437
2011	2,907
Thereafter	21,103
	<hr/> 39,259

17. TENANT PROTECTION ACT

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

18. CONTINGENCIES

[a] TCHC will be liable to repay certain CMHC loans, not yet formally forgiven, amounting to \$5,441,000 [2005 - \$5,979,000] which are included in deferred capital contributions [note 12], should it fail to adhere to the terms and conditions under which the loans were originally granted. Management believes that TCHC will adhere to the terms and conditions.



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[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, 2006, it is management's position that TCHC has valid defences and appropriate insurance coverage in place. In the unlikely event that any claims are successful, such claims are not expected to have a material impact on TCHC's financial position.

19. FINANCIAL INSTRUMENTS

TCHC is exposed to market, interest and foreign exchange risks with respect to its investments and to interest rate risk with respect to its long-term debt. TCHC enters into derivative financial instruments to manage its risk exposure to interest rates with respect to its long-term debt.

TCHC is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect counterparties to fail to meet their obligations given their high credit rating.

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

20. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

21. SUBSEQUENT EVENT

TCHC has entered into a Credit Agreement with TCHC Issuer Trust which in turn has entered into an agreement with various agents to issue \$250,000,000 4.877% Debentures Series A due May 11, 2037 subject to prior sale by the agents [the "Offering"]. TCHC Issuer Trust will advance the proceeds of the Offering to TCHC as a loan pursuant to the Credit Agreement and Master Covenant Agreement between TCHC and TCHC Issuer Trust. TCHC will use such advance for long-term financings of social housing projects and related programs of TCHC and its affiliates, including the Regent Park and Don Mount Court development programs, deferred capital expenditures, acquisition of new housing units and for general corporate purposes.



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