Consolidated Financial Statements

Toronto Community Housing Corporation

December 31, 2008

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, 2008 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 27, 2009.

Toronto Community Housing Corporation

CONSOLIDATED BALANCE SHEET

[000s]

As at December 31

	2008	2007
	$	$
ASSETS		
Current		
Cash	**2,839**	3,126
Investments *[note 3]*	**223,882**	284,364
Accounts receivable *[note 4[a]]*	**101,378**	65,474
Prepaid expenses	**982**	3,946
Total current assets	**329,081**	356,910
Investments and loans receivable *[notes 3 and 5]*	**31,487**	6,570
Investments for capital asset replacement reserve *[note 3]*	**22,351**	24,770
Investments for internally restricted purposes *[note 3]*	**56,063**	127,923
Receivable from the City of Toronto *[note 4[b]]*	**20,517**	20,517
Housing projects *[notes 4[c] and 6]*	**1,414,896**	1,363,379
Other capital assets *[note 7]*	**616,939**	526,426
Guaranteed Equity Housing Project *[note 8]*	**10,276**	10,543
Prepaid lease	**1,411**	1,468
	2,503,021	2,438,506
LIABILITIES, SURPLUS AND SHARE CAPITAL		
Current		
Bank loan *[note 9]*	**60,860**	28,977
Accounts payable and accrued liabilities *[notes 4[a]] and 8]*	**125,251**	114,938
Tenants' deposits and rents received in advance	**9,278**	8,715
Deferred revenue	**3,484**	4,173
Current portion of deferred revenue on long-term leases	**71**	71
Current portion of project financing *[note 11]*	**46,636**	32,026
Total current liabilities	**245,580**	188,900
Capital asset replacement reserve *[note 12]*	**22,351**	24,770
Deferred revenue on long-term leases	**1,575**	1,655
Employee benefits *[note 10]*	**46,567**	58,257
Project financing *[note 11]*	**1,102,296**	1,044,063
Interest rate swap liability *[note 11[c][i]]*	**7,772**	—
Debenture loan *[note 11[e]]*	**83,101**	177,448
Deferred capital contributions *[note 13]*	**346,007**	321,207
Total liabilities	**1,855,249**	1,816,300
Commitments and contingencies *[notes 17 and 19]*		
Surplus and share capital		
Share capital: authorized and issued - 100 common shares	**1**	1
Invested in capital assets *[note 14]*	**512,894**	481,379
Internally restricted surplus *[note 15]*	**56,063**	127,923
Unrestricted surplus	**78,814**	12,903
Total surplus and share capital	**647,772**	622,206
	2,503,021	2,438,506

See accompanying notes

Approved on behalf of the Board:

Director Director

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF OPERATIONS

[000s]

Year ended December 31

	2008	2007
	$	$
REVENUE		
Subsidies *[note 16]*	**308,501**	301,461
Rent		
Residential *[note 18]*	**261,936**	260,748
Commercial	**8,162**	9,241
Amortization of deferred capital contributions *[note 13]*	**26,761**	26,601
Parking, laundry and cable fees	**15,047**	18,366
Investment income *[note 5[a]]*	**15,975**	17,896
Gain on sale of housing projects	**1,020**	—
Other	**13,054**	5,698
	650,456	640,011
EXPENSES		
Operating and maintenance *[notes 10 and 17[b]]*	**227,642**	229,463
Municipal taxes	**112,323**	110,813
Depreciation	**87,436**	79,872
Interest *[note 11]*	**71,129**	69,717
Administration *[notes 10, 11[e] and 17[a]]*	**56,830**	57,775
Rent supplement program *[note 16]*	**27,473**	23,528
Guaranteed Equity Housing Project - deficit *[note 8]*	**462**	446
	583,295	571,614
Excess of revenue over expenses before unrealized losses	**67,161**	68,397
Unrealized losses		
Change in unrealized losses on investments	**33,823**	9,016
Change in unrealized losses on swap loan *[note 11[c][i]]*	**7,772**	—
	41,595	9,016
Excess of revenue over expenses for the year	**25,566**	59,381

See accompanying notes

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

[000s]

Year ended December 31

	2008			
	Invested in capital assets	**Internally restricted surplus**	**Unrestricted surplus**	**Total**
	$	$	$	$
Net assets, beginning of year	**481,379**	**127,923**	**12,903**	**622,205**
Excess of revenue over expenses for the year	—	—	**25,566**	**25,566**
Change in net assets invested in capital assets *[note 14]*	**31,515**	—	**(31,515)**	—
Change in internally restricted surplus *[note 15]*	—	**(71,860)**	**71,860**	—
Net assets, end of year	**512,894**	**56,063**	**78,814**	**647,771**

	2007			
	Invested in capital assets	**Internally restricted surplus**	**Unrestricted surplus**	**Total**
	$	$	$	$
Net assets, beginning of year	448,118	115,544	(838)	562,824
Excess of revenue over expenses for the year	—	—	59,381	59,381
Change in net assets invested in capital assets *[note 14]*	33,261	—	(33,261)	—
Change in internally restricted surplus *[note 15]*	—	12,379	(12,379)	—
Net assets, end of year	481,379	127,923	12,903	622,205

See accompanying notes

Toronto Community Housing Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

[000s]

Year ended December 31

	2008	2007
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**25,566**	59,381
Add (deduct) items not involving cash		
Amortization of deferred capital contributions	**(26,761)**	(26,601)
Depreciation	**87,703**	79,075
Gain on sale of housing projects	**1,020**	—
Change in unrealized loss on investments	**33,823**	9,016
Change in unrealized loss on swap loan	**7,772**	—
	129,123	120,871
Changes in non-cash working capital balances related to operations		
Accounts receivable	**(35,904)**	(11,796)
Prepaid expenses	**2,964**	19
Prepaid lease	**57**	56
Accounts payable and accrued liabilities	**(1,161)**	21,541
Tenants' deposits and rents received in advance	**563**	678
Deferred revenue	**(689)**	1,556
Deferred revenue on long-term leases	**(80)**	(596)
Employee benefit obligations	**(11,690)**	5,141
Cash provided by operating activities	**83,183**	137,470
INVESTING ACTIVITIES		
Increase in investments and loans receivable	**(24,917)**	(6,570)
Net decrease in investments	**97,874**	(204,399)
Acquisition of housing projects	**(123,165)**	(56,736)
Proceeds on sale of housing projects	**25,654**	—
Purchase of other capital assets	**(132,975)**	(138,132)
Cash used in investing activities	**(157,529)**	(405,837)
FINANCING ACTIVITIES		
Bank loan	**31,883**	28,977
Increase (decrease) in accounts payable and accrued liabilities related to the purchase of housing projects and other capital assets	**11,474**	(9,249)
Repayment of project financing	**(42,287)**	(29,226)
New project financing and debenture loan assumed	**20,783**	267,884
Contributions for capital asset replacement reserve	**7,270**	7,134
Restricted grants for housing projects	**44,936**	3,544
Cash provided by financing activities	**74,059**	269,064
Net increase (decrease) in cash during the year	**(287)**	697
Cash, beginning of year	**3,126**	2,429
Cash, end of year	**2,839**	3,126

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

1. THE COMPANY AND ITS MISSION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policies

Effective January 1, 2008, TCHC adopted the recommendations of CICA 1535: *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the consolidated financial statements to evaluate TCHC's objectives, policies and processes for managing capital. The adoption of these recommendations only required additional disclosures which are provided in note 21.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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.
Toronto Community Housing Enterprises Inc.

These consolidated financial statements also include the proportionate consolidation of TCHC's interest in a joint venture.

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 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 apply CICA 3861: *Financial Instruments - Disclosure and Presentation* in place of CICA 3862: *Financial Instruments - Disclosures* and CICA 3863: *Financial Instruments - Presentation*.

Investments and investment income

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

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

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

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

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

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

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

Transactions are recorded on a trade date basis. Transaction costs are expensed as incurred, except for direct financing costs that are deducted from the carrying value of the financial liability.

Investment income (loss) includes interest, dividends and realized and unrealized gains and losses. Investment income (loss) related to operations is accounted for in the consolidated statement of operations. Investment income (loss) earned on externally restricted funds is credited directly to the funds on the consolidated balance sheet.

Derivative financial instruments

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

Financing costs

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

Capital assets

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

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

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

Deferred capital contributions

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

Employee-related costs

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

[i] TCHC's contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;

[ii] The costs of termination benefits and compensated absences are recognized when an event that obligates TCHC occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;

[iii] The costs of other employee benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Actuarial gains and losses are recognized as incurred;

[iv] Employee future benefit liabilities are discounted using current interest rates on long-term bonds;

[v] Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment, which is between 9 and 11 years; and

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

Foreign currency 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.

Future accounting policies

The CICA has issued revisions to the CICA 4400 series and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional. A new section, CICA 4470: *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revisions which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by fiscal years beginning on or after January 1, 2009, with earlier adoption permitted. Management is assessing the impact of the other revisions and the timing of their adoption. However, the impact will be limited to reclassification of numbers in the consolidated financial statements and additional disclosures.

3. INVESTMENTS

Investments consist of the following:

[000s]	2008 $	2007 $
Pooled investment funds		
Global Equity Fund	**38,066**	58,430
Fixed Income Fund	**51,860**	57,431
Canadian Equity Fund	**35,379**	39,578
Canadian Bond Fund	**17,815**	17,738
	143,120	173,177
Term deposits	**40,000**	243,894
Money Market Fund	**118,187**	19,182
Other	**989**	804
	302,296	437,057
Less investments restricted by the Ontario Ministry of Municipal Affairs and Housing for capital asset replacement reserve *[note 12]*	**(22,351)**	(24,770)
Less investments for internally restricted purposes *[note 15]*	**(56,063)**	(127,923)
	223,882	284,364

4. ACCOUNT BALANCES WITH CITY OF TORONTO

[a] TCHC enters into transactions with the City in the normal course of business under normal trade terms and includes payments for various services and supplies. Included in accounts receivable is $78,986,000 [2007 - $44,482,000] receivable from the City, and included in accounts payable and accrued liabilities is $8,724,000 [2007 - $10,002,000] payable to the City as a result of these transactions.

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

Included in long-term receivable from the City is $3,870,000 [2007 - $3,870,000] for sick leave benefits less $409,000 [2007 - $409,000], being an amount funded internally by TCHC *[note 10[f]]*, and $17,056,000 [2007 - $17,056,000] for other employment and post-employment benefits *[note 10[h]]*.

[c] During 2008, TCHC purchased a building from the City for $1,200,000.

5. INVESTMENTS AND LOANS RECEIVABLE

[a] TCHC's wholly-owned subsidiary, Regent Park Development Corporation ["RPDC"], has entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. RPDC and the developer have equal interests in the co-tenancy of the development, which operates through a nominee corporation, Dundas and Parliament Development Corporation ["DPDC"]. TCHC accounts for this joint venture using the equity method. There are no significant differences in the accounting policies of DPDC.

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

[000s]	2008 $	2007 $
	[unaudited]	
Total assets	**15,982**	4,036
Liabilities	**15,923**	4,096
Co-tenant's equity		
Contributed surplus	**293**	—
Deficit	**(234)**	(60)
Total liabilities and co-tenant's equity	**15,982**	4,036
Expenses	**(174)**	(60)
Loss for the year	**(174)**	(60)
Deficit, beginning of year	**(60)**	—
Deficit, end of year	**(234)**	(60)
Cash provided by (used in) operating activities	**(2,640)**	477
Cash provided by financing activities	**9,055**	3,286
Cash used in investing activities	**(6,836)**	(3,245)

TCHC's share of DPDC's deficit is included in investments in the consolidated balance sheet. The loss for the year has been included in investment income (loss) in the consolidated statement of operations.

TCHC has entered into a loan agreement with DPDC to advance funds for the interim financing of the construction based on standard commercial terms for construction loans. Amounts are advanced under five separate non-revolving term facilities and the availability of each facility will not be extended beyond the third anniversary of the initial drawdown for each facility unless the one-year extension at the option of DPDC is consented to by TCHC. Advances earn interest at the bank's prime rate plus 0.28%. As at December 31, 2008, TCHC has advanced $24,185,000 [2007 - $6,570,000] to DPDC.

[b] During 2008, TCHC's wholly-owned subsidiary, Toronto Community Housing Enterprises Inc. ["TCHE"], entered into a joint venture with a utility corporation for the construction and operation of the heating and cooling plant located in the Regent Park Development Project. TCHE has a 60% interest in the heating and cooling plant and operations, which operates through a nominee corporation, Regent Park Energy Inc. ["RPEI"]. TCHC accounts for this joint venture using the proportionate consolidation method. There are no significant differences in the accounting policies of RPEI.

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

[000s]	**2008** $
Total assets	**15,628**
Total liabilities	**458**
Joint venturer's equity	
Contributed surplus	**15,204**
Deficit	**(34)**
Total liabilities and joint venturer's equity	**15,628**
Expenses	**(34)**
Loss for the year and deficit, end of year	**(34)**
Cash used in operating activities	**(34)**
Cash provided by financing activities	**15,204**
Cash used in investing activities	**(13,982)**

[c] TCHC's wholly owned subsidiary, Don Mount Court Development Corporation ["DMCDC"], has entered into an agreement with a developer for the construction of certain properties in Don Mount Court. TCHC has entered into a loan agreement with the developer to advance funds for the interim financing of the development. Amounts advanced are due at the earliest of completion or two years after the first advance. Advances earn interest at the bank's prime rate plus 0.50%. As at December 31, 2008, TCHC has advanced $7,302,000 to the developer.

6. HOUSING PROJECTS

Housing projects consist of the following:

	2008			
[000s]	January 1 $	Additions (disposals) $	Completed during the year $	December 31 $
Land	**350,452**	**(211)**	**153**	**350,394**
Buildings	**1,303,256**	**13,302**	**5,437**	**1,321,995**
Equipment	**22,168**	**—**	**—**	**22,168**
Housing projects under construction	**97,204**	**83,400**	**(5,590)**	**175,014**
	1,773,080	**96,491**	**—**	**1,869,571**
Less accumulated depreciation	**(409,701)**	**(44,974)**	**—**	**(454,675)**
	1,363,379	**51,517**	**—**	**1,414,896**

Housing projects include capitalized interest of $4,637,000 [2007 - $1,533,400].

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

7. OTHER CAPITAL ASSETS

Other capital assets consist of the following:

	2008		
[000s]	**January 1** $	**Additions during the year** $	**December 31** $
Improvements to land and buildings	**554,007**	**123,860**	**677,867**
Furniture and equipment	**87,730**	**9,108**	**96,838**
Leasehold improvements	**2,697**	**7**	**2,704**
	644,434	**132,975**	**777,409**
Less accumulated depreciation	**(118,008)**	**(42,462)**	**(160,470)**
	526,426	**90,513**	**616,939**

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

Other capital assets include assets under capital leases totalling $17,280,577 [2007 - $18,560,620] *[note 11[c][iii]]*.

8. GUARANTEED EQUITY HOUSING PROJECT

TCHC owns a building which has Guaranteed Equity Units, each consisting of rights that include membership in the Equity Corporation and the right to occupy a particular suite in the building, that were sold to seniors under terms which guarantee repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the Consumer Price Index. This obligation is recorded at $14,661,000 [2007 - $14,277,000] and is included in TCHC's accounts payable and accrued liabilities in the consolidated balance sheet. 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:

		2008	
	January 1	**Net change during the year**	**December 31**
[000s]	$	$	$
Land	**1,216**	**—**	**1,216**
Buildings	**13,047**	**—**	**13,047**
Equipment	**11**	**—**	**11**
	14,274	**—**	**14,274**
Less accumulated depreciation	**(3,731)**	**(267)**	**(3,998)**
	10,543	**(267)**	**10,276**

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

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

[000s]	2008 $	2007 $
Depreciation	**267**	267
Equity appreciation	**125**	128
Operating, marketing and selling	**63**	59
Administrative and other	**69**	49
	524	503
Less sundry revenue	**(60)**	(55)
Less amortization of deferred capital contributions	**(2)**	(2)
Deficit	**462**	446

9. SHORT-TERM BANK FACILITIES

TCHC has a committed revolving credit facility of $200,000,000 [2007 - $200,000,000] that is available for short-term advances and letters of credit. Short-term advances are available by way of Bankers' Acceptance ["BA"] and are repayable at maturity of the term on May 8, 2009. For 2008, the interest charges are at the bank's BA rate plus 0.5%. As at December 31, 2008, short-term advances of $60,860,000 [2007 - $17,847,000] have been used. Of these amounts, $32,503,000 [2007 - $11,130,000] has been used for the purchase of capital assets *[note 14]* and the balance of $28,357,000 has been used for partial financing of loans receivable *[notes 5[a] and [c]]*. As at December 31, 2008, there are outstanding letters of credit of $6,670,000 [2007 - $3,165,000].

10. EMPLOYEE BENEFITS

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

[000s]	2008 $	2007 $
Workers' Safety and Insurance Board ["WSIB"] obligations *[note 10[e]]*	**11,279**	13,873
Sick leave benefits *[note 10[f]]*	**8,866**	9,481
Severance/termination benefits *[note 10[g]]*	**2,342**	2,580
Other employment and post-employment benefits *[note 10[h]]*	**24,035**	25,683
	46,522	51,617
Supplementary employee retirement plan ["SERP"] *[note 10[i][i]]*	**45**	6,640
	46,567	58,257

Additional information about TCHC's SERP and other benefit plans as at December 31, 2008 is as follows:

	SERP		Other benefits	
[000s]	2008 $	2007 $	2008 $	2007 $
Accrued benefit obligation	**14,983**	23,487	**41,590**	46,134
Plan assets	**(165)**	—	**—**	—
Unamortized past service cost	**(14,773)**	(16,847)	**4,932**	5,483
Consolidated balance sheet liability	**45**	6,640	**46,522**	51,617

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

	SERP		Other benefits	
	2008	**2007**	**2008**	**2007**
[000s]	$	$	$	$
Balance, beginning of year	**6,640**	3,503	**51,617**	49,613
Current service cost	**811**	828	**(1,461)**	3,244
Interest cost	**1,334**	1,221	**1,441**	1,319
Expected benefits paid	**—**	—	**(1,130)**	(1,091)
Amortization of past service costs	**2,074**	2,074	**(551)**	(551)
Actuarial gain	**(10,548)**	(986)	**(3,394)**	(917)
Funding contributions	**(266)**	—	**—**	—
Balance, end of year	**45**	6,640	**46,522**	51,617

[c] TCHC's employee benefits expense for the year is as follows:

	SERP		Other benefits	
	2008	**2007**	**2008**	**2007**
[000s]	$	$	$	$
Current service cost	**811**	828	**(1,461)**	3,244
Interest cost	**1,334**	1,221	**1,441**	1,319
Amortization of past service costs	**2,074**	2,074	**(551)**	(551)
Actuarial gain	**(10,548)**	(986)	**(3,394)**	(917)
	(6,329)	3,137	**(3,965)**	3,095

[d] During the year, TCHC made non-pension benefits payments directly to employees and retirees of approximately $3,399,000 [2007 - $2,816,000].

[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, assumes responsibility for financing their 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., which is a Schedule 1 employer, pays insurance premiums as calculated by the WSIB. The WSIB is responsible for costs of employees under this plan.

Due to the complexities in valuing the liabilities of WSIB, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2007 and the accrued benefit obligation as at December 31, 2008 is based on an extrapolation of the December 31, 2007 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 [2007 - $3,870,000], less $409,000 [2007 - $409,000], being an amount funded internally by TCHC *[note 4[b]]*.

Due to the complexities in valuing the liabilities of the sick leave benefits, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed as of December 31, 2006 and the accrued benefit obligation as at December 31, 2008 is based on an extrapolation of the December 31, 2006 valuation. The next scheduled valuation will be completed as of December 31, 2009.

[g] Severance/termination benefits

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

[h] Other employment and post-employment benefits

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

The former THC participated in a payroll benefits plan reserve fund established by the City to provide for future benefits to all City employees and retirees. An amount of $17,056,000 [2007 - $17,056,000], representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City [note 4[b]].

Due to the complexities in valuing the liabilities of the other employment and post-employment benefits, actuarial valuations are conducted on a periodic basis. For the other employment and post-employment benefits, the most recent actuarial valuation was completed as of December 31, 2006 and the accrued benefit obligation as at December 31, 2008 is based on an extrapolation of the December 31, 2006 valuation. The next scheduled valuation will be completed as of December 31, 2009.

[i] Other plans

[i] SERP

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

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

[ii] OMERS

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

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

Depending on the individual's normal retirement age and pensionable earnings, 2008 contribution rates were 6.5% to 9.6% [2007 - 6.5% to 9.6%]. Total employer contributions for the year ended December 31, 2008 amounted to $5,457,000 [2007 -

$5,192,000] 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	
	2008	**2007**	**2008**	**2007**
	%	%	%	%
Discount rates for benefit obligation				
- Post-retirement and sick leave	**—**	—	**7.5**	5.60
- Post-employment	**—**	—	**7.0**	5.50
- Pension	**7.5**	5.50	**—**	—
Discount rates for benefit costs				
- Post-retirement and sick leave	**—**	—	**5.60**	5.25
- Post-employment	**—**	—	**5.50**	4.75
- Pension	**5.5**	5.25	**—**	—
Rate of compensation increase	**3.0**	3.00	**3.00**	3.00

For measurement purposes, a 7.92% annual rate of increase in the per capita cost of covered health care benefits was assumed. The rate is assumed to decrease gradually to 4.6% by 2013 and remain at that level thereafter.

11. PROJECT FINANCING AND DEBENTURE LOAN

Project financing consists of the following:

[000s]	**2008** $	**2007** $
Mortgages payable to		
- Canada Mortgage and Housing Corporation ["CMHC"] *[note 11[a]]*	**448,202**	465,068
- Other *[note 11[b]]*	**424,819**	437,458
Long-term loans payable to others *[note 11[c]]*	**78,779**	72,182
Debenture loan *[note 11[e]]*	**163,679**	69,286
Long-term loans payable to the City of Toronto *[note 11[d]]*	**33,453**	32,095
	1,148,932	1,076,089
Less current portion	**(46,636)**	(32,026)
	1,102,296	1,044,063

Interest incurred on long-term debt was $69,244,000 [2007 - $69,516,000] and has been recorded in interest expense on the consolidated statement of operations. All mortgages *[notes 11[a] and [b]]* and the capital leasing facility *[note 11[c][iii]]* have their underlying assets pledged as security. The remaining loans are unsecured.

The change in project financing is calculated as follows:

[000s]	**2008** $	**2007** $
New project financing assumed	**9,607**	25,589
Debenture proceeds	**95,612**	70,203
Less mortgage payments	**(36,433)**	(27,888)
Less loan payments	**(5,854)**	(1,338)
Less deferred financing costs	**(1,219)**	(917)
Net increase in financing	**61,713**	65,649

Principal repayments are due as follows:

[000s]	**Canada Mortgage and Housing Corporation** $	**City of Toronto** $	**Others** $	**Total** $
2009	21,927	2,963	21,746	46,636
2010	19,234	2,093	22,835	44,162
2011	20,098	2,541	23,984	46,623
2012	21,097	2,121	25,191	48,409
2013	21,996	2,474	26,398	50,868
2014 to 2043	343,850	21,261	547,123	912,234
	448,202	33,453	667,277	1,148,932

[a] CMHC mortgages bear interest at rates between 2.86% and 11.0% [2007 - 3.7% and 11.0%]. These mortgages mature between 2009 and 2031 [2007 - 2008 and 2032].

[b] Other mortgages bear interest at rates between 3.86% and 13.27% [2007 - 3.8% and 11.0%]. These mortgages mature between 2009 and 2043 [2007 - 2008 and 2032].

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

[i] As at December 31, 2008, TCHC has a non-revolving 20-year amortizing construction bridge term loan of $47,920,000 [2007 - $50,000,000] to assist with the financing of the three to four-year anticipated project construction period for Phase 1 of its Building Renewal Program.

The loan is obtained through one-year BA's and interest is payable at the BA rate plus 20 basis points [the "stamping fee"]. TCHC's interest exposure is hedged under a committed 12-year interest rate swap facility, which effectively fixed the interest rate at 4.52% plus the applicable BA stamping fee. The swap facility was transferred on April 15, 2009 at 4.55% plus a stamping fee of 80 basis points. The facility will continue to be available to hedge interest rate exposure on renewals of the loan for the balance of the committed 12-year term, which matures February 15, 2018.

At December 31, 2008, the notional value of the interest rate swap was $47,920,000 [2007 - $50,000,000] and the fair value was a loss of approximately $7,772,000 [2007 - nil], which is recorded as a liability on the consolidated balance sheet.

[ii] In September 2006, TCHC entered into a seven-year unsecured term loan of $14,650,000 to refinance certain of its buildings and renovations. Interest is payable at 4.58% [2007 - 4.58%]. The unamortized balance will be due at maturity. As at December 31, 2008, the term loan was $13,906,000 [2007 - $14,246,000].

[iii] TCHC had a capital leasing facility of $20,000,000 with interest payable at 5.11% to finance a portion of its appliance replacement program. In August 2007, purchases made under this facility were sold and leased back to TCHC. Leasing payments started in August 2007 at $253,169 per month for a period of 96 months. As at December 31, 2008, $16,953,000 [2007 - $19,066,000] was outstanding on this facility.

[d] Loans from the City bear interest at rates between 2.75% and 11.0% [2007 - 2.5% and 11.0%]. These loans mature between 2016 and 2031 [2007 - 2008 and 2038].

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

TCHC has used $165,815,000 [2007 - $70,203,000] of this loan for long-term financing of social housing projects. The balance of the loan of $84,185,000 [2007 - $179,797,000] will be used for future long-term financing of social housing projects and related programs of TCHC and its affiliates. TCHC incurred costs of $3,297,000, which reduced the carrying value of the related debt, which are amortized over the same term as the debt. Amortization of $46,000 [2007 - $31,000] was recorded.

Debenture loan consists of the following:

	2008		
[000s]	**Project financing** $	**Debenture loan** $	**Total** $
Proceeds of debt	**165,815**	**84,185**	**250,000**
Deferred financing costs	**(2,136)**	**(1,084)**	**(3,220)**
	163,679	**83,101**	**246,780**

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

12. CAPITAL ASSET REPLACEMENT RESERVE

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

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

[000s]	2008 $	2007 $
Balance, beginning of year	**24,770**	45,497
Contributions during the year	**7,270**	7,134
Investment income (loss)	**(3,064)**	1,216
Less transfer to deferred capital contributions for approved expenditures *[note 13]*	**(6,625)**	(29,077)
Balance, end of year	**22,351**	24,770

13. DEFERRED CAPITAL CONTRIBUTIONS

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

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

[000s]	2008 $	2007 $
Balance, beginning of year	**321,207**	315,187
Restricted grants for housing projects	**44,936**	3,544
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditures *[note 12]*	**6,625**	29,077
Less amortization of deferred capital contributions	**(26,761)**	(26,601)
Balance, end of year *[note 19[a]]*	**346,007**	321,207

Deferred capital contributions include unspent funds of $8,501,000 [2007 - nil].

14. NET ASSETS INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets consist of the following:

[000s]	2008 $	2007 $
Housing projects *[note 6]*	**1,414,896**	1,363,379
Other capital assets *[note 7]*	**616,939**	526,426
Less project financing *[note 11]*	**(1,148,932)**	(1,076,089)
Less bank loan to purchase capital assets *[note 9]*	**(32,503)**	(11,130)
Less deferred capital contributions spent *[note 13]*	**(337,506)**	(321,207)
	512,894	481,379

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

[000s]	2008 $	2007 $
Net acquisition of housing projects *[note 6]*	**96,491**	56,736
Purchase of other capital assets *[note 7]*	**132,975**	138,132
Repayment of project financing *[note 11]*	**42,287**	29,226
Amortization of deferred capital contributions *[note 13]*	**26,761**	26,601
Less new project financing assumed *[note 11]*	**(9,607)**	(25,589)
Less bank loan to purchase capital assets *[note 9]*	**(32,503)**	(11,130)
Less debenture proceeds used *[note 11]*	**(95,612)**	(70,203)
Less deferred financing costs *[note 11]*	**1,219**	917
Less restricted grants for housing projects *[note 13]*	**(36,435)**	(3,544)
Less transfer from capital asset replacement reserve *[note 12]*	**(6,625)**	(29,077)
Less depreciation of housing projects and other capital assets *[notes 6 and 7]*	**(87,436)**	(78,808)
	31,515	33,261

15. INTERNALLY RESTRICTED SURPLUS

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

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. The Board approved collapsing the reserve and transferring the balance to the unrestricted surplus as this reserve was no longer required as the unrestricted surplus can be used for these expenditures.

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.

Internally restricted surplus consists of the following:

[000s]	**Unrestricted Contingency Reserve Fund** $	**Don Mount Court Reserve Fund** $	**Regent Park Development Reserve Fund** $	**2008 Total** $	**2007 Total** $
Transfers from operations for the year consist of					
Operating surplus transfer	**1,040**	**—**	**16,000**	**17,040**	13,000
Investment income earned	**3,314**	**32**	**1,922**	**5,268**	6,511
Market value adjustments for investments held	**(12,490)**	**(119)**	**(9,593)**	**(22,202)**	(6,862)
Glenmaple financing	**270**	**—**	**—**	**270**	(270)
Transfer to unrestricted fund	**(72,236)**	**—**	**—**	**(72,236)**	—
Net transfers for the year	**(80,102)**	**(87)**	**8,329**	**(71,860)**	12,379
Balance, beginning of year	**80,102**	**775**	**47,046**	**127,923**	115,544
Balance, end of year	**—**	**688**	**55,375**	**56,063**	127,923

16. PROGRAM ADMINISTRATION

TCHC administers various programs on behalf of the City. Subsidies received from the City offsetting these costs have been recorded in subsidies revenue. TCHC incurred costs of $10,718,000 [2007 - $9,755,000] for the commercial rent supplement program, $11,754,000 [2007 - $12,019,000] for the strong communities program, $360,000 [2007 - $448,000] for the housing allowance pilot program, $4,641,000 [2007 - $1,306,000] for the housing allowance roll-out program and $19,146,000 [2007 - $18,013,000] for the community-sponsored program.

Housing program subsidies received from the City are based on mortgage principal and interest and municipal taxes payments for housing projects funded under the TCHC Operating Agreement with the City and have been recorded in subsidies revenue. For these projects, the municipal tax expense for 2008 totalled $100,151,000 [2007 - $99,275,000] and the mortgage principal and interest payments for 2008 totalled $80,296,000 [2007 - $80,678,000].

17. COMMITMENTS

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

[000s]	$
2009	3,275
2010	3,372
2011	2,837
2012	2,344
2013	1,181
Thereafter	15,876
	28,885

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

18. RESIDENTIAL TENANCIES ACT

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

19. CONTINGENCIES

[a] TCHC will be liable to repay certain CMHC and City loans, not yet formally forgiven, amounting to $5,089,000 and $2,852,000 [2007 - $5,451,000 and $1,640,000], respectively, which are included in deferred capital contributions *[note 13]*, should it fail to adhere to the terms and conditions under which the loans were originally granted. Management believes that TCHC will adhere to the terms and conditions.

[b] The nature of TCHC's activities is such that there is often litigation pending or in progress. With respect to claims as at December 31, 2008, it is management's position that TCHC has valid defences and appropriate insurance coverage in place. In the unlikely event that any claims are successful, such claims are not expected to have a material impact on TCHC's financial position.

20. FINANCIAL INSTRUMENTS

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

TCHC is subject to interest rate cash flow risk with respect to its floating rate debt. TCHC has addressed this risk by entering into an interest rate swap agreement related to part of its debt that fixes the interest rate over the term of the debt.

TCHC is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. TCHC addresses this commodity price risk exposure by entering into various energy-related purchase and sales contracts that fix a portion of the wholesale price over the term of the contract. TCHC was not a participant in the City's contract that was outstanding at December 31, 2008. TCHC is a participant in two contracts effective March 2009 for a 12-month period.

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

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

21. CAPITAL MANAGEMENT

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

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.