EX35.13

Attachment 2

Toronto Community Housing Corporation

Consolidated Financial Statements
December 31, 2017

May 4, 2018

Independent Auditor's Report

To the Shareholder of
Toronto Community Housing Corporation

We have audited the accompanying consolidated financial statements of Toronto Community Housing Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations, changes in net assets, remeasurement gains and losses - unrestricted and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toronto Community Housing Corporation and its subsidiaries as at December 31, 2017 and the results of their operations, their remeasurement gains and losses - unrestricted and their cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto Community Housing Corporation
Consolidated Statement of Financial Position
As at December 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash (note 15)	65,128	17,416
Investments (notes 3 and 15)	172,845	171,676
Restricted cash for externally restricted purposes (notes 6(e),11(c) and (e))	29,766	29,579
Accounts receivable (notes 6(a), 15 and 19)	38,682	73,499
Loans receivable (note 5)	19,379	4,854
Prepaid expenses and deposits	8,699	5,802
	334,499	302,826
Loans receivable (note 5)	43,754	22,642
Grants receivable (note 13(b))	31,481	16,572
Investments in joint ventures (note 4)	14,719	16,373
Investments for capital asset replacement reserve (note 12)	47,881	45,867
Investments for capital expenditures under restrictions with lenders (note 11)	145,800	51,925
Receivable from the City of Toronto (note 6(b))	21,325	21,325
Housing projects acquired or developed (note 7)	1,615,349	1,576,439
Improvements to housing projects (note 8)	1,354,908	1,191,840
Prepaid lease	912	968
Total assets	3,610,628	3,246,777

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

(in thousands of dollars)

	2017 $	2016 $
Liabilities		
Current liabilities		
Bank loan and bank indebtedness (note 9)	-	32,000
Accounts payable and accrued liabilities (note 6(a))	242,833	218,233
Tenants' deposits and rents received in advance	15,282	14,237
Deferred revenue	714	784
Project financing (note 11)	78,842	60,821
	337,671	326,075
Capital asset replacement reserve (note 12)	47,881	45,867
Deferred revenue on long-term leases	1,218	1,297
Deferred revenue on land sale (note 4(d))	14,420	13,843
Employee benefits (note 10)	80,834	82,522
Project financing (note 11)	1,601,821	1,332,484
Interest rate swap (note 11(d))	136	1,110
Deferred capital contributions (note 13(a))	475,454	453,729
Total liabilities	2,559,435	2,256,927
Accumulated Surplus		
Share capital		
Authorized and issued		
100 common shares	1	1
Internally restricted funds (note 15)	205,076	192,986
Contributed surplus	5,136	5,136
Unrestricted surplus	837,795	789,462
Accumulated remeasurement gains	3,185	2,265
Total net assets	1,051,193	989,850
	3,610,628	3,246,777

Contingencies (note 16)

Commitments (note 18)

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

Toronto Community Housing Corporation

Consolidated Statement of Operations

For the year ended December 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Revenue		
Subsidies (note 6(c))	234,540	227,422
Rent		
Residential	309,848	300,726
Commercial	16,141	15,263
Amortization of deferred capital contributions (note 13(a))	45,268	46,422
Parking, laundry and cable fees	17,781	17,425
Investment income	6,472	10,352
Joint venture income (loss) (note 4)	19,222	(450)
Gain on sale of housing projects and other capital assets (note 17)	53,230	44,974
Plant	1,459	1,313
Other	2,154	3,054
	706,115	666,501
Expenses		
Operating and maintenance	173,537	163,484
Utilities	131,314	112,698
Municipal taxes	17,247	16,489
Depreciation	163,004	152,393
Interest (note 11)	75,769	74,082
Rent supplement program (note 6(c))	-	25,735
Community safety services	17,539	17,203
Residential services	11,752	10,412
Corporate services	52,485	49,833
Plant	2,112	2,170
Loss from guaranteed equity housing project and other	948	576
	645,707	625,075
Excess of revenue over expenses for the year	60,408	41,426

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

Toronto Community Housing Corporation

Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2017

(in thousands of dollars)

						2017
	Share capital $	**Internally restricted funds $**	**Contributed surplus $**	**Unrestricted surplus $**	**Accumulated remeasurement gains (losses) $**	**Total $**
Net assets - January 1, 2017	1	192,986	5,136	789,462	2,265	989,850
Excess of revenue over expenses for the year	-	-	-	60,408	-	60,408
Net change in unrealized gains on revaluation of interest rate swap (note 11(d))	-	-	-	-	974	974
Net change in unrealized losses on portfolio investments	-	-	-	-	(39)	(39)
Net change in unrealized losses on portfolio investments held for internally restricted purposes (note 15)	-	15	-	-	(15)	-
Change in internally restricted funds (note 15)	-	12,075	-	(12,075)	-	-
Net assets - December 31, 2017	1	205,076	5,136	837,795	3,185	1,051,193

						2016
	Share capital $	**Internally restricted funds $**	**Contributed surplus $**	**Unrestricted surplus $**	**Accumulated remeasurement gains (losses) $**	**Total $**
Net assets - January 1, 2016	1	169,296	5,136	775,332	1,284	951,049
Excess of revenue over expenses for the year	-	-	-	41,426	-	41,426
Net change in unrealized gains on revaluation of interest rate swap (note 11(d))	-	-	-	-	1,134	1,134
Net change in unrealized losses on portfolio investments	-	-	-	-	(3,759)	(3,759)
Net change in unrealized losses on portfolio investments held for internally restricted purposes (note 15)	-	(3,606)	-	-	3,606	-
Change in internally restricted funds (note 15)	-	27,296	-	(27,296)	-	-
Net assets - December 31, 2016	1	192,986	5,136	789,462	2,265	989,850

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

Toronto Community Housing Corporation

Consolidated Statement of Remeasurement Gains and Losses - Unrestricted

For the year ended December 31, 2017

(in thousands of dollars)

	2017 $	2016 $
Accumulated remeasurement gains - unrestricted - Beginning of year	2,265	1,284
Net change in unrealized gains (losses) attributable to		
Interest rate swap (note 11(d))	974	1,134
Portfolio investments	(39)	(3,759)
Accumulated remeasurement gains (losses) for the year - unrestricted	935	(2,625)
Reallocation of unrealized gains attributable to portfolio investments held for internally restricted purposes (note 15)	(15)	3,606
Accumulated unrestricted remeasurement gains for the year - unrestricted	920	981
Accumulated remeasurement gains - unrestricted - End of year	3,185	2,265

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

Toronto Community Housing Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(in thousands of dollars)

	2017 $	2016 Restated (note 20) $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	60,408	41,426
Add (deduct): Items not involving cash		
Amortization of deferred capital contributions (note 13(a))	(45,268)	(46,422)
Depreciation	163,227	152,807
Gain on sale of housing projects and other capital assets (note 17)	(53,230)	(44,974)
Imputed interest on loan (note 11)	82	140
Joint venture (income) loss (note 4)	(19,222)	450
Employee benefit obligations (note 10)	(1,688)	(337)
	104,309	103,090
Changes in non-cash working capital balances related to operations		
Accounts receivable	34,951	(7,146)
Prepaid expenses	(2,507)	(1,180)
Accounts payable and accrued liabilities	7,578	10,708
Tenants' deposits and rents received in advance	1,045	411
Deferred revenue	428	1,997
	145,804	107,880
Investing activities		
Receipt (issuance) of loans receivable	(46)	2,081
Decrease in investments and restricted investments	15,308	222,804
Net distributions from joint ventures (note 4)	34,971	1,623
Decrease (increase) in restricted cash (note 11(e))	(187)	2,837
	50,046	229,345
Capital activities		
Acquisition of housing projects	(90,734)	(56,648)
Proceeds on gain on sale and other capital assets (note 17)	10,120	45,950
Improvements to housing projects	(265,683)	(220,534)
	(346,297)	(231,232)
Financing activities		
Borrowing (repayment) of bank loan (note 9)	(32,000)	17,000
Receipt of long-term grants receivable (note 13(b))	2,538	1,087
Deferred financing cost (note 11)	(388)	(56)
New project financing and debenture loans (note 11)	273,060	23,462
Repayment of project financing (note 11)	(97,165)	(161,856)
Contributions for capital asset replacement reserve (note 12)	9,006	8,927
Restricted grants for housing projects	43,108	5,477
	198,159	(105,959)
Increase in cash during the year	47,712	34
Cash - Beginning of year	17,416	17,382
Cash - End of year	65,128	17,416
Change in accrued capital expenditures	17,022	44,513
Other non-cash capital expenditures	(2,869)	(1,523)

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

(in thousands of dollars)

1 The corporation and its mission

Toronto Community Housing Corporation was incorporated under the provisions of the Ontario Business Corporations Act on December 14, 2000 as Metro Toronto Housing Corporation. On October 9, 2001, articles of amendment were filed to effect a name change to Toronto Community Housing Corporation (TCHC). TCHC is wholly owned by the City of Toronto (the City). The City includes all organizations that are accountable for administration of their financial affairs and resources to City Council and are controlled by the City. In establishing TCHC, the City approved a Shareholder Direction that set guiding principles, high-level objectives and expected accountability to the City. The Shareholder Direction establishes TCHC as operating at arm's length from the City, under the direction of an independent Board of Directors.

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

TCHC is a municipally-owned corporation as it is owned by the City of Toronto and, as such, is exempt from income taxes under paragraph 149(1)(d.5) of the Income Tax Act (Canada)

Under the Residential Tenancies Act, 2006, rental units located in a not-for-profit housing project, which are developed under a prescribed federal or provincial program, are exempt from residential rent controls.

2 Basis of preparation and summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit organizations. The significant accounting policies are summarized below:

Basis of consolidation

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

- Don Mount Court Development Corporation (DMCDC)
- 2001064 Ontario Inc.
- Access Housing Connections Inc. (AHCI)
- Regent Park Development Corporation (RPDC)
- Toronto Community Housing Enterprises Inc. (TCHE)
- Railway Lands Development Corporation (RLDC)
- Allenbury Gardens Development Corporation (AGDC)
- Regent Park Energy Inc. (RPEI)
- Alexandra Park Development Corporation (APDC)
- Leslie Nymark Development Corporation (LNDC)
- Housing Services Inc. (HSI)

(in thousands of dollars)

TCHC Issuer Trust is a trust declared as a special purpose entity under the laws of Ontario pursuant to a declaration of trust made as at May 1, 2007 and amended as at December 1, 2007 and was established for the sole purpose of investing in and facilitating the financing of social housing programs and related programs of TCHC and its affiliates through the issuance of debentures under the Trust debenture.

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

- Dundas and Parliament Development Corporation (DPDC)
- Parliament and Gerrard Development Corporation (PGDC)
- Library District Inc.
- Allenbury Gardens Revitalization General Partnership (AGP)
- Alexandra Park Phase I Partnership (APPI)
- Leslie Nymark Partnership (LNP)

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

All intercompany transactions and balances have been eliminated.

TCHC significantly influences Regent Park Arts Non-Profit Development Corporation (RPAD) through its membership in RPAD. As it is a non-share not-for-profit organization, RPAD is not consolidated or accounted for using the modified equity method in these consolidated financial statements. Note 4 provides further information on RPAD.

TCHC administers a number of funds pursuant to an agreement with the City of Toronto. As TCHC does not control the use of these funds and is accountable to the City for the use and disposition of fund assets, the funds have not been consolidated in these consolidated financial statements.

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 unless the contributions are restricted for the purchase of capital assets when they are recognized as revenue on the same basis as the capital assets are amortized. Externally restricted net investment income is deferred in the appropriate reserve and is recognized as revenue on the same basis as externally restricted contributions as the restrictions are met.

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

(in thousands of dollars)

Financial instruments

At initial recognition, TCHC records financial instruments at the transaction price and classifies them in the following categories, depending on the purpose for which the instruments were acquired:

	Category	Measurement
Cash and restricted cash	loans and receivables	amortized cost
Investments and restricted investments[1]	portfolio investments	fair value
Accounts receivable	loans and receivables	amortized cost
Receivable from the City of Toronto	loans and receivables	amortized cost
Loans receivable	loans and receivables	amortized cost
Grants receivable	loans and receivables	amortized cost
Accounts payable and accrued liabilities	financial liabilities	amortized cost
Tenants' deposits	financial liabilities	amortized cost
Bank loan and bank indebtedness	financial liabilities	amortized cost
Project financing	financial liabilities	amortized cost
Interest rate swap	derivatives	fair value
Debenture loans	financial liabilities	amortized cost

[1]Investments and restricted investments include the following balances: investments, investments for capital asset replacement reserve, and investments for capital expenditures under restrictions with lenders.

Investments and investment income

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

- short-term notes and treasury bills - cost plus accrued income, which approximates fair value;
- publicly traded bonds - most recent bid prices in an active market; and
- investments in pooled funds - valued at their reported net asset value per unit to reflect fair value.

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

Investment income includes interest, pooled fund distributions and realized gains and losses. Investment income is recognized in the consolidated statement of operations when earned unless it relates to externally restricted funds in which case it is allocated directly to the externally restricted funds on the consolidated statement of financial position. Investment income earned on internally restricted funds is recognized in the consolidated statement of operations and subsequently is allocated to internally restricted funds as disclosed in the consolidated statement of changes in net assets. Unrealized gains or losses are recorded in the consolidated statement of remeasurement gains and losses – unrestricted unless related to externally and internally restricted funds, in which case, the unrealized gains or losses adjust the value of the offsetting reserve recorded on the consolidated statement of financial position.

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

(in thousands of dollars)

- investment income and both realized and unrealized gains will be allocated to funds with deficit positions; and

- realized and unrealized losses will be allocated to funds with surplus positions, unless all funds are in deficit positions.

Derivative financial instruments

Derivative contracts are recorded at their fair value as an asset or a liability based on the present value of the estimated future cash flows based on observable Canadian dollar interest rate swap yield curves obtained from dealer quotes with changes in fair value recorded on the consolidated statement of remeasurement gains and losses - unrestricted.

Financing costs

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

Housing projects acquired and developed and improvements to housing projects

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

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

Guaranteed equity units consist of rights that include membership in the equity corporation and the right to occupy a particular suite in the building, which were sold to seniors under terms guaranteeing the repurchase of each unit by TCHC at the purchase price plus, for some, an inflation factor related to the consumer price index. This asset is reflected in the consolidated statement of financial position as a housing project, with a corresponding liability for the repurchase obligation. No gain or loss is recorded on sale or repurchase of a guaranteed equity unit.

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

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

(in thousands of dollars)

Deferred capital contributions

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

Employee related costs

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

- TCHC's contributions to a multi-employer, defined benefit pension plan and other post-employment benefit plans are expensed as contributions come due;
- the costs of terminating benefits and compensated absences that do not vest or accumulate are recognized when an event that obligates TCHC occurs; costs include projected future income payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees, salary escalation, expected health-care costs and plan investment performance. Actuarial gains and losses are amortized over the expected average remaining service lives;
- employee future benefit liabilities are discounted using the average expected borrowing rate of TCHC over the period during which benefits are expected to be earned;
- past service costs from plan amendments are expensed as incurred; and
- the costs of workplace safety and insurance obligations are actuarially determined and expensed. Actuarial gains and losses are recognized as incurred.

Use of estimates

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

(in thousands of dollars)

Liability for contaminated sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. A liability for remediation of contaminated sites is recognized when: TCHC is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate for the amount can be made. As at December 31, 2017, TCHC has not recorded any liability in the consolidated financial statements as no sites have met the recognition criteria. TCHC will continue to review contaminated sites on an annual basis and when the criteria for recognition have been met, a liability will be recorded.

3 Investments

Current investments consists of $2,320 (2016 - $2,003) of term deposits and $170,525 (2016 - $169,673) of pooled equity funds and fixed income securities, which were restricted internally for internally restricted funds. The fixed income securities of corporate and Canadian government fixed income securities with nominal coupon rates between 0.50% and 5.70% and have maturity dates ranging from 2018 to 2028. These securities are considered to be highly liquid (notes 12 and 15).

(in thousands of dollars)

4 Investments in joint ventures and other interests

	DPDC (note 4 (a)) $	PGDC (note 4 (b)) $	Library District Inc. (note 4 (c)) $	AGP (note 4 (d)) $	APPI (note 4 (e)) $	LNP (note 4 (f)) $	2017 Total $
Balance at January 1, 2017 per joint venture	2,317	1,805	658	8,246	13,325	-	26,351
Net income (loss)	272	13,011	255	(205)	8,220	-	21,553
Contributions	15	432	-	-	12,576	-	13,023
Distributions	(515)	(13,300)	(687)	(1,050)	(19,866)	-	(35,418)
Balance at December 31, 2017 per joint venture	2,089	1,948	226	6,991	14,255	-	25,509
Exchange amount of land transferred to joint venture	(112)	-	-	-	(12,576)	-	(12,688)
Carrying value of land transferred to joint venture	23	27	-	-	94	-	144
Pre-development costs	-	1,056	-	121	577	-	1,754
Balance at December 31, 2017 per TCHC	2,000	3,031	226	7,112	2,350	-	14,719
Joint ventures' assets, liabilities and cash flows at 100% share							
Total assets	6,787	28,834	734	119,252	46,199	63,853	
Total liabilities	2,618	25,833	323	108,583	28,091	53,295	
Cash flow from (used in) operating activities	974	48,708	464	(8,513)	39,362	(5,981)	
Cash flow used in investing activities	-	(48,184)	-	(51)	-	-	
Cash flow from (used in) financing activities	(998)	(245)	(957)	5,797	(29,487)	5,965	
Net income (loss) per joint venture	272	13,011	255	(205)	8,220	-	21,553
Writeoff of pre-development costs associated with market units that have been sold	-	(1,033)	-	-	(1,298)	-	(2,331)
Net income (loss) per TCHC	272	11,978	255	(205)	6,922	-	19,222

(in thousands of dollars)

							2016
	DPDC (note 4 (a)) $	**PGDC** (note 4 (b)) $	**Library District Inc.** (note 4 (c)) $	**AGP** (note 4 (d)) $	**APPI** (note 4 (e)) $	**LNP** (note 4 (f)) $	**Total** $
Balance at January 1, 2016 per joint venture	2,389	1,906	1,308	8,774	13,468	-	27,845
Net income (loss)	353	159	92	(528)	(143)	-	(67)
Contributions	15	760	-	-	-	-	775
Distributions	(440)	(1,020)	(742)	-	-	-	(2,202)
Balance at December 31, 2016 per joint venture	2,317	1,805	658	8,246	13,325	-	26,351
Exchange amount of land transferred to joint venture	(112)	-	-	-	(13,928)	-	(14,040)
Carrying value of land transferred to joint venture	23	27	-	-	575	-	625
Pre-development costs	-	2,597	-	116	724	-	3,437
Balance at December 31, 2016 per TCHC	2,228	4,429	658	8,362	696	-	16,373
Joint ventures' assets, liabilities and cash flows at 100% share							
Total assets	7,201	64,335	2,258	95,881	84,116	34,376	
Total liabilities	2,574	61,174	1,061	83,786	66,971	29,204	
Cash flow from (used in) operating activities	885	(23,662)	(164)	(49,473)	(2,465)	(5,680)	
Cash flow used in investing activities	-	(242)	-	(143)	-	-	
Cash flow from (used in) financing activities	(888)	22,721	(1,350)	52,122	2,540	5,750	
Net income (loss) per joint venture	353	159	92	(528)	(143)	-	(67)
Writeoff of pre-development costs associated with market units that have been sold	(154)	(229)	-	-	-	-	(383)
Net income (loss) per TCHC	199	(70)	92	(528)	(143)	-	(450)

a) On October 31, 2006, TCHC's wholly owned subsidiary, Regent Park Development Corporation (RPDC), entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. The co-tenancy operates through a nominee corporation, Dundas and Parliament Development Corporation (DPDC). The value of RPDC's equity investment in DPDC differs from the balance reported by the co-tenant. This difference is due to RPDC recording contributions of land to DPDC at the carrying value of the land whereas DPDC has recorded the contributed land at an exchange amount that has been agreed to by the two co-tenants. The difference between the exchange amount and the carrying value of the land of $89 (2016 - $89) will be recognized on the closing of market units that have been developed by DPDC.

b) On January 12, 2009, TCHC's wholly owned subsidiary, RPDC, entered into a co-tenancy agreement with a developer for the construction of certain properties in Regent Park. The co-tenancy of the development operates through a nominee corporation, Parliament Gerrard Development Corporation (PGDC). The value of RPDC's equity investment in PGDC differs from the balance reported by the co-tenant. This difference is due to the value attributed to the land contributed to PGDC whereby RPDC accounts for the contribution of land at its carrying value whereas PGDC accounts for the contribution of land at an exchange amount agreed to by the two co-tenants (notes 17(b), (c) and (d)). Furthermore, RPDC's

(in thousands of dollars)

valuation of the land contributed to PGDC also includes various pre-development costs that PGDC does not recognize as part of the exchange amount of land. As at December 31, 2017, the difference between the exchange amount and the carrying value of the land of $27 (2016 - $27) will be recognized on the sale of market units that have been developed by PGDC. The pre-development costs of $1,056 (2016 - $2,597) will be written off in the year market units are closed.

On December 6, 2016, PGDC entered into a credit agreement with lenders to finance the development and construction costs of a development project. TCHC is the obligor of the PGDC credit agreement in the event of default by PGDC, without securing the credit facility with any of TCHC’s assets. TCHC is guaranteeing the lesser of $5,258, and 50% of PDGC’s debts plus interest and expenses.

c) On May 22, 2009, TCHC’s wholly owned subsidiary, Railway Lands Development Corporation (RLDC), entered into a co-tenancy agreement with a developer for the construction of certain properties. The co-tenancy operates through a nominee corporation, Library District Inc.

d) On February 5, 2013, TCHC’s wholly owned subsidiary, Allenbury Gardens Development Corporation (AGDC), entered into a partnership agreement with a developer, thus forming Allenbury Gardens Revitalization General Partnership (AGP) for the revitalization of certain properties in Allenbury Gardens. AGDC and the development partner have equal interest for contributions up to $900, and receive a 70%/30% share of distributions until the point AGDC recovers the development and replacement cost for TCHC’s rental units, and receives a 30%/70% interest in the partnership thereafter of no less than $2,550. The 70%/30% interest will reciprocate once TCHC’s residential units in the project break even on a cash flow basis. The AGP operates through a nominee, Soul Residences Inc., which holds legal title to the real property as a bare trustee for AGDC and the development partner to whom beneficial ownership of the property is then transferred on closing.

On March 4, 2016, TCHC transferred land with a carrying value of $80 to Soul Residences Inc. in exchange for a promissory note for $4,854 (note 5). The note is repayable on realization of sale proceeds of market units and from any other proceeds realized by AGP on the earlier of the final closing of the market units or the termination of the development project. As at December 31, 2017, TCHC recognized deferred revenue on land sale of $4,774 (2016 - $4,774), no revenue has been recognized to date.

On June 14, 2016, TCHC transferred land with a carrying value of $95 to Connect Residences Inc. in exchange for a promissory note for $4,946 (note 5). The note is repayable on realization of sale proceeds of market units and from any other proceeds realized by AGP on the earlier of the final closing of the market units or the termination of the development project. As at December 31, 2017, TCHC recognized deferred revenue on land sale of $4,851 (2016 - $4,851); no revenue has been recognized to date.

The value of AGDC’s equity investment in AGP differs from the balance reported by the co-tenant. As at December 31, 2017, the difference is due to AGDC recording contributed pre-development costs of $121 (2016 - $nil), which will be written off in the year market units are closed.

e) On July 19, 2013, TCHC’s wholly owned subsidiary, Alexandra Park Development Corporation (APDC), entered into a partnership agreement with a developer, forming Alexandra Park Phase I Partnership (APPI), for the revitalization of certain properties in Alexandra Park. APDC and the developer have equal

(in thousands of dollars)

interests in the partnership, which operates through a nominee corporation, Alexandra Park Condominium Residences Inc. (APCRI), which holds legal title to the real property as a bare trustee for APDC and the development partner to whom beneficial ownership of the property is transferred on closing. The development partner funds 100% of predevelopment expenses until the first construction advance, and all costs incurred by the partnership are capitalized in APPI as at December 31, 2017 and 2016.

The value of APDC's equity investment in APPI differs from the balance reported by the co-tenant. This difference is due to APDC recording contributions of land to APPI at the carrying value of the land whereas APPI has recorded the contributed land at an exchange amount that has been agreed to by the two co-tenants. As at December 31, 2016, the difference between the exchange amount and the carrying value of the land was $13,353. This difference was recognized as a non-cash gain in 2017 due to the closing of market units in 2017 (note 17(e)).

As at December 31, 2017, the value of APDC's equity investment in APPI differs from the balance reported by the partnership. This difference is due to APDC recording land contributed to APPI in 2017 at the carrying value of the land whereas APPI has recorded the contributed land at an exchange amount that has been agreed to by the two partners. The difference between the exchange amount and the carrying value of the land of $12,482 will be recognized on the closing of market units that have been developed by APPI.

f) On October 2, 2015, TCHC's wholly owned subsidiary, Leslie Nymark Development Corporation (LNDC), entered into a partnership agreement with a developer, forming Leslie Nymark Partnership (LNP), for the revitalization of certain properties. LNDC and the developer have equal interests in the partnership, which operates through a nominee corporation, Scala Residences Inc. Scala Residences Inc. holds legal title to the real property as a bare trustee for LNDC and the development partner to whom beneficial ownership of the property is transferred on closing. The development partner funds 100% of predevelopment expenses until the first construction advance, and all costs incurred by the partnership have been capitalized in LNP as at December 31, 2017 and 2016.

Significantly influenced not-for-profit organizations

TCHC's wholly owned subsidiary, RPDC, and two unrelated parties (the members) each hold equal non-share interests, in the Regent Park Arts Non-Profit Development Corporation (RPAD) to construct Daniels Spectrum, which was completed in 2013. TCHC exercises significant influence, but not joint control over RPAD. RPAD is a not-for-profit corporation that is tax exempt.

On August 1, 2012, TCHC entered into a ground lease with RPAD for the land on which Daniels Spectrum has been built for 50 years less a day, for an annual fee of one dollar plus additional rent for taxes and utilities. Beginning on August 1, 2012, Artscape, one of the members of RPAD leased the premises from RPAD based on the same terms as the ground lease. In turn, Artscape sublet the property to the tenants. Artscape is responsible for the management and operation of Daniels Spectrum.

On December 6, 2013, RPAD entered into a seven-year first leasehold mortgage of $2,750, with a one-year term at a fixed interest rate of 5% per annum renewable in December 2016. Security on the loan is the leasehold interest held by RPAD in Daniels Spectrum. TCHC does not provide any security with its assets, except for the

(in thousands of dollars)

assignment of one dollar annual rent to the lender in the event of default. RPAD made an annual payment of $400 toward the first leasehold mortgage during the year ended December 31, 2017, with an outstanding mortgage liability of $850 (2016 - $1,250).

5 Loans receivable

	2017 $	2016 $
DPDC (notes 5(a), 17(b), (c) and (d))	37,958	2,374
AGP (note 4(d))	9,800	9,800
Lawrence Heights development partner (note 5(b))	3,732	3,623
Mortgages receivable (note 5(c))	11,643	11,699
Total	63,133	27,496
Less: Current portion	(19,379)	(4,854)
	43,754	22,642

a) On August 31, 2010, TCHC provided a $500 revolving demand facility and a $2,500 non-revolving loan to the co-tenancy, which consists of three credit facilities:

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

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

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

The three credit facilities are secured by the co-tenancy's land and assets and are guaranteed by the co-tenancy partner. TCHC has advanced $2,367 (2016 - $2,374) to DPDC.

b) On November 14, 2016, TCHC sold land to a developer with a carrying value of $725 and received cash of $1,548 and a loan receivable of $3,610, which bears interest of 3% with a maturity date of November 14, 2019. As at December 31, 2017, TCHC has recorded interest receivable of $122.

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

(in thousands of dollars)

6 Account balance with the City

a) TCHC enters into transactions with the City in the normal course of business and receives payments for various services and supplies. Included in accounts receivable is $22,262 (2016 - $62,497) receivable from the City and included in accounts payable and accrued liabilities is $7,631 (2016 - $8,193) payable to the City as a result of these transactions.

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

Included in the long-term receivable from the City is $4,269 (2016 - $4,269) for sick leave benefits (note 10(i)(b)) and $17,056 (2016 - $17,056) for post-retirement (note 10(i)(a))) and disability benefits (note 10(i)(d)).

c) During the year ended December 31, 2017, the City provided gross subsidies of $234,540 (2016 - $227,422), of which $nil (2016 - $25,735) pertains to subsidies atttributed to tenants and are reflected on the consolidated statement of operations as expenditures. Due to the transfer of AHCI's assets to the City (note 6(f)), the strong communities program and commercial rent supplement program are administered by TCHC on behalf of the City (note 14) and, effective in 2017, subsidy amounts are no longer reflected in the accounts of TCHC. Subsidies revenue consists of the following:

	2017 $	2016 $
Operating expense	105,007	72,464
Mortgage principal and interest expense (note 6(d))	75,586	76,230
Municipal tax expense (note 6(d))	8,452	7,993
Municipal tax exemption (note 6(d))	(4,678)	(4,678)
Educational tax saving	8,683	8,683
Mayor's task force (note 6(g))	4,175	3,766
Rent supplement subsidies for buildings owned (note 6(d))	37,315	37,229
Subsidies not passed through to tenants	234,540	201,687
Strong communities program (note 6(f))	-	11,319
Commercial rent supplement program (note 6(f))	-	14,416
Subsidies passed through to tenants	-	25,735
Total subsidies	234,540	227,422

d) Expenditures incurred with the City include $52,401 (2016 - $46,218) for water and waste, $17,400 (2016 - $16,418) for property taxes and $2,266 (2016 - $2,341) for the mortgage interest charges paid to the City.

Other housing program subsidies received from the City are based on mortgage principal and interest and municipal tax payments for housing projects funded under a TCHC Operating Agreement with the City and

(in thousands of dollars)

have been recorded in subsidies revenue. For these projects, the municipal tax expense for 2017 was $8,452 (2016 - $7,993), municipal tax exemption for 2017 was $4,678 (2016 - $4,678) and the mortgage principal and interest payments for 2017 totalled $75,586 (2016 - $76,230). TCHC also received rent supplements of $37,315 (2016 - $37,229) for the buildings it owns, which have been recorded as subsidies revenue.

e) The City provided funds that it received under Section 37 of the Planning Act to TCHC for capital improvements in specific developments, including design work, associated labour costs, and capital maintenance. As at December 31, 2017, a $5,152 grant was received and the accumulated capital expenditures were $3,354 (2016 - $2,788). The funds available for future capital expenditures are $1,880 (2016 - $2,420), including $82 accumulated interest, invested as restricted cash as at December 31, 2017.

f) On October 23, 2015, the Board of Directors approved the transfer of the wait list function of AHCI to the City as per the term sheet signed by TCHC and the City on October 21, 2015. A phased-in approach was adopted for the transaction with preliminary close on October 28, 2015 and the net liability of $344 has been transferred to the City as per the asset purchase agreement dated December 31, 2016.

During the year ended December 31, 2017, TCHC received $245 (2016 - $223) from the City as administrative cost recoveries of the subsidiary, net against corporate services expenses, and $23 (2016 - $36) transitional contingencies recorded as accounts payable and accrued liabilities to cover future costs borne by TCHC.

In 2017, TCHC recorded commercial rent of $372 (2016 - $450), of which $30 (2016 - $37) was accrued.

g) In 2017, TCHC received $4,175 (2016 - $5,475) in funding for Mayor’s Task Force projects, of which $4,175 was recorded as subsidies.

h) In 2016, one stand-alone housing project was sold to the City at fair value for net proceeds of $1,118. The net book value associated with the unit was $67, resulting in a gain on sale of $1,051 included in the consolidated statement of operations. In 2017, no such sales occurred.

(in thousands of dollars)

7 Housing projects acquired or developed

Housing projects acquired or developed consist of the following:

	Cost - December 31, 2016 $ (1)	Additions $	Disposals and writedowns $	Completed during the year $	Cost - December 31, 2017 $	Accumulated depreciation $ (1)	Net book value - December 31, 2017 $
Land	382,259	260	(1,264)	-	381,255	-	381,255
Buildings	1,861,904	3,877	(3,260)	7,494	1,870,015	(886,343)	983,672
Guaranteed equity housing projects	13,373	-	(1,695)	-	11,678	(6,161)	5,517
Plant	45,519	-	-	1,867	47,386	(9,158)	38,228
Housing projects under construction	126,005	95,408	(5,375)	(9,361)	206,677	-	206,677
	2,429,060	99,545	(11,594)	-	2,517,011	(901,662)	1,615,349

(1) As at December 31, 2016, housing projects acquired or developed were recorded at a cost of $1,576,439 with accumulated depreciation of $852,621.

As at December 31, 2017, the additions of housing projects acquired or developed include capitalized interest of $728 (2016 - $739).

During the year ended December 31, 2017, pre-development costs totalling $2,331 (2016 - $383) (note 4) were written off and $1,754 (2016 - $3,437) (note 4) will be written off on closing of the market units in the future. These pre-development costs related to completed housing projects that have been sold by TCHC to third parties.

The guaranteed equity housing project units are repurchased on termination of the project in 2042 or earlier based on the terms of the arrangement. During the year ended December 31, 2017, TCHC repurchased nine units and holds forty repurchased units as at December 31, 2017. The associated cost and accumulated depreciation of $1,338 of the repurchased units was transferred to housing projects acquired or developed and rented at the market rate. As at December 31, 2017, an obligation of $10,678 (2016 - $11,755) for the repurchase of guaranteed equity units has been recorded in accounts payable and accrued liabilities.

(in thousands of dollars)

8 Improvements to housing projects

Improvements to housing projects consist of the following:

	Cost - December 31, 2016 $ (i)	Additions $	Disposals $	Cost - December 31, 2017 $	Accumulated depreciation $ (i)	Net book value - December 31, 2017 $
Improvements to land and buildings	1,785,438	257,768	-	2,043,206	(744,814)	1,298,392
Furniture and equipment	174,290	18,579	-	192,869	(136,515)	56,354
Leasehold improvements	2,955	51	-	3,006	(2,950)	56
Other capital work-in-process	-	106	-	106	-	106
	1,962,683	276,504	-	2,239,187	(884,279)	1,354,908

i) As at December 31, 2016, improvements to housing projects were recorded at a cost of $1,191,840 with accumulated depreciation of $770,843.

Improvements to housing projects include assets under capital leases with a carrying value of $5,760 (2016 - $7,040).

9 Bank loan and bank indebtedness

TCHC has a committed revolving credit facility of $200,000 (2016 - $200,000) that is available for short-term advances and letters of credit, with standby charges of 0.25%. Short-term advances are available by way of a prime loan at the Canadian prime rate and bankers' acceptances (BAs) at the bank's BA rate plus 1.10%. Short-term advances of $nil (2016 - $32,000) have been used and are repayable on or before maturity of December 31, 2018. There are outstanding letters of credit of $2,401 (2016 - $2,667), which reduce the amount available under this facility.

(in thousands of dollars)

10 Employee benefits

TCHC has the following employee benefits plans:

i) Non-pension post-retirement and post-employment benefit plans (other benefits)

The following benefit plan liabilities as at December 31, 2017 are based on the most recent tri-annual actuarial valuation that has been completed as at December 31, 2015:

(a) Post-retirement medical, dental and life insurance benefits

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

The former THC participated in a payroll benefits plan reserve fund established by the City to provide for future post-retirement benefits and disability benefits (note 10(i)(d)) to all City employees and retirees. An amount of $17,056 (2016 - $17,056), representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City (note 6(b)).

(b) Accumulating sick leave benefits

The accrued benefit obligation is based on the most recent actuarial valuation that was completed as at December 31, 2015. Under the sick leave benefit plan, unused sick leave can accumulate and bargaining unit employees may become entitled to a cash payment when they leave TCHC's employment. The liability for the accumulated sick leave represents both vested and unvested amounts that could be paid to bargaining unit employees on termination. As at December 31, 2017, 786 (2016 - 786) unionized employees are eligible for sick benefits on retirement.

This past service liability was set up as a result of the former THC participation in a reserve fund established by the City. TCHC recorded a receivable from the City equal to the liability of the former THC of $4,678 (2016 - $4,678), less $409 (2016 - $409), which is an amount funded internally by TCHC. At the time of amalgamation of Metropolitan Toronto Housing Corporation, a long-term disability obligation was transferred to TCHC from the City. As at December 31, 2017, the liability was recorded as $849 (2016 - $997).

(c) Accumulating termination benefits

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

(in thousands of dollars)

The following benefit plan liabilities as at December 31, 2017 are based on the most recent annual actuarial valuation that has been completed as at December 31, 2017:

(d) Continuation of medical, dental, life insurance and income replacement benefits to disabled employees

TCHC provides health, dental, life insurance and income replacement benefits to disabled employees.

(e) Self-insured Worker's Safety and Insurance Board (WSIB) obligation

TCHC and its subsidiaries are Schedule 2 employers under the Workplace Safety and Insurance Act and as such assume responsibility for financing their workplace safety insurance costs. The accrued obligation represents the actuarial valuation of claims to the insured based on the history of claims with TCHC employees.

ii) Supplementary employee retirement plan (SERP)

The benefits plan liabilities as at December 31, 2017 are based on the most recent tri-annual actuarial valuation that has been completed as at December 31, 2017.

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

iii) Ontario Municipal Employees' Retirement Fund (OMERS)

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

In 2017, the OMERS funded ratio stands at 94% (2016 - 93.4%) and the primary plan ended 2017 with a funding deficit of $5.4 billion (2016 - $5.7 billion). Because OMERS is a multi-employer plan, any pension plan surplus or deficit is the joint responsibility of all Ontario municipalities and their employees. TCHC does not recognize any share of the OMERS pension surplus or deficit.

Depending on the individual's normal retirement age and pensionable earnings, 2017 contribution rates were 9% to 14.6% (2016 - 9% to 14.6%). Total employee contributions amounted to $10,889 (2016 - $10,302). Total employer contributions amounted to $11,501 (2016 - $10,302).

(in thousands of dollars)

Employee benefits liabilities of TCHC

	2017 $	2016 $
Post-retirement benefits (note 10(i)(a))	19,052	17,144
Sick leave benefits (note 10(i)(b))	13,055	12,354
Termination benefits (note 10(i)(c))	1,408	1,266
Disability benefits (note 10(i)(d))	7,990	8,055
WSIB obligation (note 10(i)(e))	10,376	13,723
Unamortized actuarial loss	(3,636)	(1,713)
Other benefits	48,245	50,829
SERP (note 10(ii))	32,589	31,693
Employee benefits	80,834	82,522

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

	SERP		Other benefits		Total	
	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $
Accrued benefit obligation	35,003	32,347	51,881	52,542	86,884	84,889
Plan assets	(928)	(940)	-	-	(928)	(940)
Unamortized actuarial gain (loss)	(1,486)	286	(3,636)	(1,713)	(5,122)	(1,427)
Accrued benefit liability	32,589	31,693	48,245	50,829	80,834	82,522
Period of amortization for actuarial loss (years)	3.5	5	12	12		

(in thousands of dollars)

Continuity of TCHC's accrued benefit liabilities

	SERP		Other benefits		Total	
	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $
Balance - Beginning of year	31,693	31,149	50,829	51,710	82,522	82,859
Current service cost	602	565	1,347	1,288	1,949	1,853
Interest cost	1,186	1,174	1,121	1,129	2,307	2,303
Benefits paid	-	-	(1,899)	(2,318)	(1,899)	(2,318)
Actuarial (gain) loss	1,504	(415)	483	733	1,987	318
Funding contributions	(910)	(1,066)	-	-	(910)	(1,066)
Unamortized actuarial gain (loss)	(1,486)	286	(3,636)	(1,713)	(5,122)	(1,427)
Balance - End of year	32,589	31,693	48,245	50,829	80,834	82,522

TCHC's employee benefits expense

	SERP		Other benefits		Total	
	2017 $	2016 $	2017 $	2016 $	2017 $	2016 $
Current service cost	602	565	1,347	1,288	1,949	1,853
Interest cost	1,186	1,174	1,121	1,129	2,307	2,303
Amortization of actuarial loss	17	(129)	(3,153)	(980)	(3,136)	(1,109)
	1,805	1,610	(685)	1,437	1,120	3,047

(in thousands of dollars)

Actuarial assumptions

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

	SERP		Other benefits	
	2017 %	**2016** %	**2017** %	**2016** %
Discount rates for benefit obligation				
Post-retirement and sick leave	-	-	2.90	3.60
Post-employment	-	-	2.60	3.15
Pension	3.10	3.80	-	-
Discount rates for benefit costs				
Post-retirement and sick leave	-	-	3.60	3.70
Post-employment	-	-	3.15	3.20
Pension	3.10	3.80	-	-
Rate of compensation increase	2.75	2.75	3.00	3.00
Inflation rate	2.00	2.00	2.00	2.00
Health-care inflation - select	n/a	n/a	5.79	5.86
Health-care inflation - ultimate	n/a	n/a	4.50	4.50
Expected rate of return on plan assets	-	-	n/a	n/a
Actual rate of return on plan assets	0.20	0.60	n/a	n/a

For measurement purposes, a 8.35% annual rate of increase in the per capita cost of covered health-care benefits was assumed. The rate is assumed to decrease gradually to 4.50% by 2030 and remain at that level thereafter.

(in thousands of dollars)

11 Project financing and debenture loans

Project financing consists of mortgages, loans payable to the City, Infrastructure Ontario (IO) and others and debentures. The changes in project financing for the year ended December 31, 2017 are as follows:

							2017
Mortgages and loans payable to	**December 31, 2016 $**	**New project financing $**	**Imputed interest on loans $**	**Mortgages and loans payments $**	**Mortgages and loans paydown for refinancing during the year $**	**Deferred financing costs $**	**December 31, 2017 $**
Canada Mortgage and Housing Corporation (CMHC) (note 11(a))	199,001	-	-	(14,399)	(38,656)	-	145,946
Other mortgages (note 11(b))	164,097	-	-	(11,087)	(14,020)	-	138,990
Long-term loans payable to the City (note 11(c))	74,228	-	82	(2,874)	-	-	71,436
Long-term loans payable to others (note 11(d))	28,178	-	-	(2,496)	-	-	25,682
Long-term loans payable to Infrastructure Ontario (IO) (note 11(e))	482,396	384,829	-	(13,633)	-	(509)	853,083
Debenture loans used in project financing (note 11(f))	445,405	-	-	-	-	121	445,526
	1,393,305	384,829	82	(44,489)	(52,676)	(388)	1,680,663
Less: Current portion	(60,821)						(78,842)
	1,332,484						1,601,821

(in thousands of dollars)

For the year ended December 31, 2017, interest incurred on long-term debt totalled $76,497 (2016 - $74,821) of which $75,769 (2016 - $74,082) has been recorded as interest expense in the consolidated statement of operations and $728 (2016 - $739) has been capitalized (note 7). All mortgages (notes 11(a), (b) and (d)) and loans payable to the City and IO (notes 11(c) and (e)) and the capital leasing facility (note 11(c)(ii)) have their underlying assets pledged as security. The remaining loans are unsecured.

Principal repayments are due as follows:

	CMHC (a) $	Other mortgages (b) $	City (c) $	Other loans (d) $	IO (e) $	Debenture loans used in project financing (f) $	Total $
2018	22,142	10,417	2,957	2,496	40,830	-	78,842
2019	8,982	11,101	3,007	22,960	17,773	-	63,823
2020	9,639	11,838	3,099	-	18,433	-	43,009
2021	10,072	12,634	3,194	-	19,117	-	45,017
2022	9,880	13,067	3,294	-	19,827	-	46,068
2023 and thereafter	85,231	79,931	55,909	226	738,644	450,000	1,409,941
Deferred financing charges on project financing	-	-	(22)	-	(1,540)	(4,475)	(6,037)
	145,946	138,988	71,438	25,682	853,084	445,525	1,680,663

a) CMHC mortgages bear interest at rates between 1.39% and 11% (2016 - 1.39% and 11%). These mortgages mature between 2018 and 2032.

b) Other mortgages bear interest at rates between 2.11% and 12.75% (2016 - 2.11% and 12.75%). These mortgages mature between 2022 and 2048.

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

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

ii) TCHC received $52,411 on December 1, 2014 from the City to refinance loans of 37 properties, with a financing cost of $25 related to the origination of the loan. The loans were provided by way of a non-revolving credit facility at a fixed interest rate of 4.5% for a 30-year term. The loans were reduced with a one-time payment of $84 on April 14, 2015 and the outstanding balance of $52,326 is repayable in annual instalments commencing January 1, 2016. Under the agreement, the proceeds of $19,801 were used to repay the outstanding principal of $18,371 and interest payable of $1,430 of the loans of 55 TCHC properties, including the 37 refinanced properties, with maturity dates that ranged from 2017 to 2031, and $32,610 was restricted for future capital expenditures of 37 refinanced properties. As at December 31, 2017, $26,746 (2016 - $26,200) of the proceeds remains restricted including the net investment income earned since inception of the financing transaction and is included in restricted cash for externally restricted purposes on the consolidated statement of financial position.

(in thousands of dollars)

iii) Other loans from the City bear interest at rates between 2.75% and 4.12% (2016 - 2.75% and 4.12%). These loans mature between 2026 and 2042.

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

TCHC has a non-revolving, 20-year amortizing construction bridge term loan of $25,456 (2016 - $27,952) to assist with the financing of the construction for Phase 1 of its Building Renewal Program, which was completed in 2009.

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

The notional value of the interest rate swap was $25,456 (2016 - $27,952) and is accounted for at fair value of $136 (2016 - $1,110), which is recorded as a liability on the consolidated statement of financial position.

e) TCHC has entered into a number of arrangements with IO, a Crown agency owned by the Province of Ontario. The loan proceeds are restricted for: (i) payment of maturing mortgages of refinanced properties; (ii) capital expenditures on specific refinanced properties; or (iii) capital expenditures on general portfolio properties. In addition, generally all net investment income earned on the restricted fund and 4% of the aggregate annual effective gross income from the refinanced properties, including any rent supplement income and affordability payments from the Province of Ontario, the City or other municipality, must be added to the capital expenditure reserve. Since December 1, 2013, TCHC has deposited $8,978 (2016 - $4,866) of the aggregate annual effective gross income from the refinanced properties.

TCHC incurred financing costs of $1,737 (2016 - $1,240) related to the origination and maintenance of the IO funding with an unamortized deferred financing cost of $1,540 (2016 - $1,031) as at December 31, 2017.

During the year ended December 31, 2017, TCHC repaid $13,633 (2016 - $8,206) toward the principal of the loans.

The IO loans payable do not require security by letters of credit and they are guaranteed by the City in favour of IO. The loans are subject to financial covenants, which are to be tested at the end of each fiscal year.

The details of the IO loans payable and related restricted assets are as follows:

i) On October 18, 2013, TCHC finalized a financing transaction with IO for $154,703 (the 2013 IO financing) consisting of non-revolving loans of $15,500 and $139,203 that mature on November 1, 2018 and November 2, 2043, respectively. The loan of $15,500 bears interest at a floating rate determined on a monthly basis by IO and the loan of $139,203 was funded in two instalments of $70,016 and $69,187 at fixed rates of 4.37% and 4.53%, respectively. The loans have monthly

(in thousands of dollars)

principal and interest repayment terms, and as at December 31, 2017, are secured by the 18 refinanced properties.

Proceeds of $60,378 were used to pay out the maturing mortgages of the 18 refinanced properties, $82,504 was restricted for capital expenditures for general properties in TCHC's portfolio and $11,821 was included in reserves held in trust by the lender, which are restricted for investments in capital assets with a useful life of at least 30 years for the refinanced properties.

As at December 31, 2017, $7,493 (2016 - $7,595) is included in investments for capital expenditures under restrictions with lenders in respect of capital expenditures on specific refinanced properties and the funds received for capital expenditure for general properties in TCHC's portfolio were fully spent.

ii) On October 27, 2014, TCHC finalized a financing transaction with IO of $49,710 (the 2014 IO financing), of non-revolving loans of $3,418 at a fixed interest rate of 2.33% for a term of five years, and $46,292 at a fixed interest rate of 3.68% for a term of 30 years. Loan proceeds of $19,023 were used to pay out the maturing mortgages of 15 refinanced properties and $30,687 was restricted for investment in future capital assets.

As at December 31, 2017, $2,234 (2016 - $2,077) is included in investments for capital expenditures under restrictions with lenders.

iii) On November 6, 2015, TCHC finalized a financing transaction with IO for $232,000 (the 2015 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.67% for a term of 30 years. Loan proceeds of $31,919 were used to repay the maturing mortgages of 12 refinanced properties, $26,404 was restricted for capital expenditures for the refinanced properties and $173,677 was used for capital expenditures for the general portfolio.

As at December 31, 2017, $11,873 (2016 - $13,528) is included in investments for capital expenditures under restrictions with lenders.

iv) On December 1, 2016, TCHC finalized a financing transaction with IO for $62,161 (the 2016 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.47% for a term of 30 years. Loan proceeds of $23,132 were used to pay out the maturing mortgages of ten refinanced properties and $39,029 was restricted for capital expenditures for the ten refinanced properties.

As at December 31, 2017, $24,931 (2016 - $28,725) is included in investments for capital expenditures under restrictions with lenders.

v) On February 10, 2017 and June 9, 2017, TCHC finalized a financing transaction with IO for $100,000 and $210,000, respectively (the 2017 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.66% and 3.20%, respectively, for a term of 30 years. Loan proceeds of $93,600 were reimbursed to TCHC, subsequent to paying out maturing mortgages of 32 refinanced properties in prior periods, $72,159 was restricted for capital expenditures for the 32 refinanced properties and $144,241 is to be used for capital expenditures for the general portfolio.

(in thousands of dollars)

As at December 31, 2017, $59,557 (2016 - $nil) is included in investments for capital expenditures under restrictions with lenders.

vi) On February 10, 2017, TCHC finalized a financing transaction with IO for $10,000 (the 2017 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.66% for a term of 30 years. Loan proceeds of $10,000 were restricted for capital expenditures for the redevelopment of an 11-storey building with 86 midrise units, 32 rental townhouses and one level of underground parking. As at December 31, 2017, TCHC is in default of a financial covenant as stipulated in this financing arrangement. Accordingly, the carrying amount of the loan totaling $9,845 is classified as a current liability in the consolidated statement of financial position as at December 31, 2017. Management is currently in discussion with the lender and the City to remedy the matter.

As at December 31, 2017, $44 (2016 - $nil) is included in investments for capital expenditures under restrictions with lenders.

vii) On October 20, 2017, TCHC finalized a financing transaction with IO for $64,829 (the 2017 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.57% for a term of 30 years. Loan proceeds of $25,219 were reimbursed to TCHC, subsequent to paying out maturing mortgages of 22 refinanced properties in prior periods and $39,610 was restricted for capital expenditures for the 22 refinanced properties.

As at December 31, 2017, $39,668 (2016 - $nil) is included in investments for capital expenditures under restrictions with lenders.

(in thousands of dollars)

The following is a summary of TCHC's restricted assets under its loan agreements:

	As at December 31, 2017			As at December 31, 2016		
	Restricted cash for externally restricted purposes $	Investments for capital expenditure under restrictions with lenders $	Total $	Restricted cash for externally restricted purposes $	Investments for capital expenditure under restrictions with lenders $	Total $
2013 IO financing	-	7,493	7,493	-	7,595	7,595
2014 IO financing	-	2,234	2,234	-	2,077	2,077
2015 IO financing	-	11,873	11,873	69	13,528	13,597
2016 IO financing	-	24,931	24,931	-	28,725	28,725
2017 IO financing	-	99,269	99,269	-	-	-
	-	145,800	145,800	69	51,925	51,994
Externally restricted funds received in 2014 - City of Toronto	26,746	-	26,746	26,200	-	26,200
Other externally restricted cash	3,020	-	3,020	3,310	-	3,310
	29,766	145,800	175,566	29,579	51,925	81,504

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

Details of the bond issues are as follows:

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

TCHC has used $250,000 (2016 - $250,000) of this loan for long-term financings of social housing projects. TCHC incurred costs of $3,297, which reduced the carrying value of the related debt and are amortized over the term of the debt. Amortization of $79 (2016 - $75) and interest expense of $12,193 (2016 - $12,193) were recorded.

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

TCHC has used $200,000 (2016 - $200,000) of this loan for long-term financings of social housing projects. TCHC incurred costs of $2,121, which reduced the carrying value of the related debt and are amortized over the same term as the debt. Amortization of $42 (2016 - $40) and interest expense of $10,383 (2016 - $10,388) were recorded.

(in thousands of dollars)

12 Capital asset replacement reserve

Under the terms of an agreement with the Ontario Ministry of Municipal Affairs and Housing, TCHC is required to maintain a reserve for major repairs and maintenance for not-for-profit program buildings and to contribute annually to the reserve from its operations funding received from the City.

Investments for the capital asset replacement reserve of $47,881 (2016 - $45,867) consisting of fixed income securities have been set aside to meet this obligation. The income earned on the investment of the reserve funds is restricted and deferred in the reserve until eligible expenditures are incurred.

The changes in the capital asset replacement reserve are due to the following:

	2017 $
December 31, 2016	45,867
Contributions during the year (i)	9,006
Investment income	635
Transfer to deferred capital contributions for expenditures (note 13(a))	(7,627)
December 31, 2017	47,881

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

13 Deferred capital contributions

a) 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 they relate is depreciated.

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

	2017 $
Balance - Beginning of year	453,729
Restricted grants for housing projects	60,735
Transfer from Ontario Ministry of Municipal Affairs and Housing capital asset replacement reserve for approved expenditure (note 12)	7,627
Less: Amortization of deferred capital contributions	(45,268)
Less: Disposal of properties with unamortized deferred capital contributions (note 17)	(1,369)
Balance - End of year	475,454

(in thousands of dollars)

b) As at December 31, 2017, the grants receivable comprise:

	2017 $	2016 $
Provincial affordability housing grants (i)	13,936	12,694
Contributions receivable from Province of Ontario (ii)	1,340	3,878
Contributions receivable from City of Toronto (iii)	16,205	-
Balance - End of year	31,481	16,572

i) Provincial affordability housing grants for the development of five projects are to be paid monthly over 20 years from the date of grant through to various dates in 2029 to 2034 and have been set up as a grant receivable of $13,936 as at December 31, 2017 (2016 - $12,694).

ii) On December 22, 2014, the City signed a contribution agreement for funding of $7,050 from the Province of Ontario to TCHC for developing 47 units for a construction project. TCHC received $2,537 in 2017 (2016 - $3,173) and expects to receive the balance of $1,340 (2016 - $2,538) in 2018.

iii) On December 22, 2016, the City signed a contribution agreement for funding of $4,910 to TCHC to assist with construction of 33 affordable housing units on Block 17 North. TCHC received $2,455 in 2017. The remainder of the funds will be recognized as grants receivable when TCHC meets the eligibility criteria set in the contribution agreement.

On December 22, 2016, the City signed a contribution agreement for funding of $13,810 to TCHC to assist with construction of 91 affordable housing units on Block 27 South. TCHC received $6,905 in 2017. The remainder of the funds will be recognized as grants receivable when TCHC meets the eligibility criteria set in the contribution agreement.

On December 22, 2016, the City signed a contribution agreement for funding of $48,167 to TCHC to assist in the repair and energy and water retrofit of 21 locations. TCHC received $15,019 in 2017 and expects to receive payment of $6,470 in 2018 for eligible work performed in 2017. The balance of $26,678 will be recorded as grants receivable when TCHC incurs eligible costs.

On December 22, 2016, the City signed a contribution agreement for funding of $28,346 to TCHC for the retrofit of nine apartment buildings with 150 units or more in order to reduce greenhouse gas emissions and improve energy efficiency. TCHC received $8,504 in 2017 and expects to receive payment of $9,735 in 2018 for eligible work performed in 2017. The balance of $10,107 will be recorded as grants receivable when TCHC incurs eligible costs.

(in thousands of dollars)

14 Funds under administration

The following funds are administered by TCHC on behalf of the City and accordingly have not been included in these consolidated financial statements:

	Net assets under administration			
	December 31, 2017		December 31, 2016	
	Assets $	Liabilities $	Assets $	Liabilities $
Toronto Affordable Housing Fund (a)	9,075	8,169	7,256	6,596
Access Housing Connections Inc. (b)	1,591	2,637	-	-
	10,666	10,806	7,256	6,596

a) The programs provide financial support to qualified individuals to purchase eligible homes. The funding agreement was signed with the City on April 30, 2009, for which principal and interest shall be paid to the City and all outstanding mortgages shall be assigned to the City on April 30, 2029, unless otherwise determined by the City.

b) TCHC administers the strong communities and commercial rent supplement programs on behalf of the City through its AHCI subsidiary (note 6).

15 Internally restricted funds

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

On May 25, 2015, the Board of Directors approved an investment fund allocation, relating to internally restricted reserves (note 3). Investment income and fair value adjustments generated from the investments that were apportioned to various internally restricted funds will be allocated based on the TCHC accounting policy (note 2).

(in thousands of dollars)

As at December 31, 2017, the funds comprise cash of $24,589 and investments of $171,637 including $1,112 of accrued investment income recorded in accounts receivable (2016 - cash of $15,163, investments of $170,028, and $355 of accrued investment income).

Internally restricted funds consist of the following:

								2017
	Capital risk reserve fund (a) $	State of good repair fund (b) $	Debt service reserve fund (c) $	Sinking fund of public debentures (d) $	Development risk reserve fund (e) $	Working capital reserve fund (f) $	Legal contingencies fund (g) $	Total (note 3) $
January 1, 2017	21,540	34,906	19,991	19,788	44,978	49,977	1,806	192,986
Contributions	-	9,517	-	-	-	-	-	9,517
Net investment income	1,035	-	-	1,860	-	-	14	2,909
Fair value adjustments for investments held	6	-	-	9	-	-	-	15
Expenditures	(92)	(91)	-	(167)	-	-	(1)	(351)
December 31, 2017	22,489	44,332	19,991	21,490	44,978	49,977	1,819	205,076

Internally restricted funds were funded by cash and investments as at December 31, 2017:

								2017
	Capital risk reserve fund (a) $	State of good repair fund (b) $	Debt service reserve fund (c) $	Sinking fund of public debentures (d) $	Development risk reserve fund (e) $	Working capital reserve fund (f) $	Legal contingencies fund (g) $	Total (note 3) $
Cash	-	24,589	-	-	-	-	-	24,589
Investments (note 3) and accrued investment income	22,489	10,893	19,991	21,490	44,978	49,977	1,819	171,637
	22,489	35,482	19,991	21,490	44,978	49,977	1,819	196,226

(in thousands of dollars)

As at December 31, 2017, the state of good repair fund has a shortfall of $8,850 (2016 - $7,795). The shortfall can be offset by cash of $65,128.

a) Capital risk reserve fund

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

b) State of good repair fund

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

Contributions received for the years ended December 31, 2017 and 2016 are as follows:

	2017 $	2016 $
Education tax savings and other	8,683	8,683
Net proceeds received from the sale of stand-alone units (i)	834	17,441
	9,517	26,124

i) Net proceeds transferred to the state of good repair fund were the sale proceeds net of selling costs and mortgage repayments.

c) Debt service reserve fund

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

d) Sinking fund of public debentures

TCHC has entered into a Credit Agreement, dated May 11, 2007, with TCHC Issuer Trust, which in turn entered into an agreement with various agents to issue bonds of $450,000 (note 11(f)), with $250,000 due in 2037, and $200,000 in 2040. The fund is intended to assist with the repayment of the debentures at maturity.

e) Development risk reserve fund

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

(in thousands of dollars)

f) Working capital reserve fund

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

g) Legal contingencies fund

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

16 Contingencies

a) TCHC will be liable to repay certain CMHC, federal, provincial, and City loans, not yet formally forgiven, which are included in deferred capital contributions (note 13), should it fail to adhere to the terms and conditions under which the loans were originally granted. As at December 31, 2017, the amount of forgivable loans is $98,140 (2016 - $91,231).

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, 2017, it is management's position that TCHC has valid defences and appropriate insurance coverage in place. In the unlikely event any claims are successful, such claims are not expected to have a material impact on TCHC's consolidated financial position.

17 Gain on sale of housing projects, land and other capital assets

a) For the year ended December 31, 2017, TCHC sold and finalized one stand-alone unit transaction for proceeds net of selling costs of $834 (2016 - $17,398). The net book value associated with the stand-alone units was $27 (2016 - $1,591) and the deferred capital contributions liability associated with the stand-alone units was $2 (2016 - $1,108). As a result of the sales, TCHC recognized a gain of $809 (2016 - $16,915) for the year ended December 31, 2017 for transactions that were finalized.

b) On February 15, 2017, TCHC sold land to a developer with a carrying value of $2,052 and received cash of $2,783 and a loan receivable of $9,578, bearing no interest rate for a period of one year and 4.5% per annum thereafter with a maturity date of February 15, 2019. As at December 31, 2017, TCHC recognized a net gain on land sale of $10,309. As at December 31, 2017, the loan amount was classified as a current loan receivable because it was fully repaid on January 15, 2018.

c) On June 2, 2017, TCHC sold land to a developer with a carrying value of $1,965 and received cash of $2,802 and a loan receivable of $11,207, bearing no interest rate for a period of one year and 4.5% per annum thereafter with a maturity date of June 2, 2019. As at December 31, 2017, TCHC recognized a net gain on land sale of $12,044.

d) On June 8, 2017, TCHC sold land to a developer with a carrying value of $1,845 and received cash of $3,701 and a loan receivable of $14,806, bearing no interest rate for a period of one year and 4.5% per annum

(in thousands of dollars)

thereafter with a maturity date of June 8, 2019. As at December 31, 2017, TCHC recognized a net gain on land sale of $16,662.

e) During 2017, TCHC recognized a net gain on land sale of $13,353 on APPI (note 4).

f) For the year ended December 31, 2017, TCHC disposed of other capital assets and recognized a net gain on sale of $53.

18 Commitments

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

	Operating lease $	Other (b) $	Total $
2018	1,322	124,025	125,347
2019	1,371	-	1,371
2020	1,465	-	1,465
2021	1,101	-	1,101
2022	1,016	-	1,016
2023 and thereafter	7,285	-	7,285
	13,560	124,025	137,585

b) As at December 31, 2017, TCHC has commitments of $124,025 to vendors for capital repairs and services to be performed over the next 12 months.

(in thousands of dollars)

19 Fair value and risk management

Fair value measurement

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate, based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

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

				2017
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments and restricted investments	366,526	-	-	366,526
Interest rate swap	-	136	-	136
	366,526	136	-	366,662

				2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Investments and restricted investments	269,468	-	-	269,468
Interest rate swap	-	1,110	-	1,110
	269,468	1,110	-	270,578

Investments and restricted investments include investments, investments for capital asset replacement reserve, and investments for capital expenditures under restrictions with lenders presented on the consolidated statement of financial position.

TCHC does not have investments in equities as at December 31, 2017 and 2016.

(in thousands of dollars)

Risk management

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

i) Interest rate risk

Interest rate risk is the risk that either future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. TCHC is exposed to significant interest rate risk as a result of cash balances, fixed rate and floating rate investments carried at fair value, and floating rate debt.

- Fixed income investments

  TCHC is exposed to the risk of fluctuation in the fair value and cash flows from its fixed income investments due to changes in interest rates.

  TCHC mainly invests in debt instruments with terms to maturity of one year or less or other short-term fixed income securities and as such has minimal sensitivity to changes in interest rates since these debt instruments have short maturity profiles and are usually held to maturity. For every 1% increase in the investment rate of return, the investments held by TCHC as at December 31, 2017 would have increased by 1%. For every 1% decrease in the investment rate of return, the investments held by TCHC as at December 31, 2017 would have decreased by 1%.

  TCHC utilizes an investment manager to manage the investment portfolio with the performance of the portfolio being assessed in relation to pre-established benchmarks and the risks associated with the investment portfolio are reviewed on a quarterly basis by TCHC's Investment Advisory Committee, which reports to TCHC's Building Investment, Finance and Audit Committee.

- Floating interest rate risk - project financing

  The risk of increases in the floating interest rate on TCHC's project financing, if unmitigated, could lead to decreases in cash flow and excess of expenditures over revenues. As at December 31, 2017, floating rate debt represented 2.36% (2016 - 5.23%) of total debt obligations. TCHC currently employs interest rate swaps for substantially all floating rate long-term debt to convert the variable interest rate facilities to a fixed interest rate. Interest rate swaps are employed in order to reduce the variability in future cash flows.

  As at December 31, 2017, the effect on unrestricted surplus of a 50 basis point absolute change in the market interest rate of the floating rate debt obligations is $197 (2016 - $404).

(in thousands of dollars)

ii) Credit risk

- Fixed income credit risk

  TCHC has investments in fixed income securities issued by corporations and government entities. TCHC mitigates its risk by limiting its investment portfolio to investments in BBB grade or higher. TCHC conducts the following so as to mitigate credit risk: TCHC's investment portfolio is limited to investments in BBB grade or higher; an investment manager manages the investment portfolio on behalf of TCHC, and investment performance is assessed in relation to pre-established benchmarks; and the performance and risks associated with the investment portfolio are reviewed on a quarterly basis by TCHC's Investment Advisory Committee, which reports to TCHC's Building Investment, Finance and Audit Committee. There are no amounts past due on the fixed income investment portfolio.

- Loans receivable credit risk

  Credit risk in the event of non-payment by the development partners is not considered to be significant as agreements outlining repayments are in place and there are no past due balances as at December 31, 2017.

- Accounts receivable from the City of Toronto credit risk

  TCHC recorded the long-term receivable from the City in 2001. TCHC and the City are currently in discussions related to the timing of repayment. The City acknowledges the amount payable and therefore, TCHC believes it is not exposed to significant credit risk as a result of non-payment.

- Accounts receivable credit risk

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

  As at December 31, 2017, the following is the aging of accounts receivable:

	30 days $	60 days $	90 days $	120 days $	Over 120 days $	Total $
Accounts receivable	19,216	5,588	1,452	134	12,292	38,682

  Total accounts receivable of $38,682 (2016 - $73,499) is comprised of the City and other receivables of $31,635 (2016 - $66,372) and tenant accounts receivable, net of allowance for doubtful accounts, of $7,047 (2016 - $7,127).

(in thousands of dollars)

iii) Liquidity risk

Liquidity risk results from TCHC's potential inability to meet its obligations associated with financial liabilities as they come due. TCHC monitors its operations and cash flows to ensure current and future obligations will be met. TCHC has access to an undrawn revolving credit facility of $200,000 to meet its current and future obligations.

The table below is a maturity analysis of TCHC's financial liabilities as at December 31, 2017:

	Up to 1 year $	More than 1 year up to 5 years $	More than 5 years $	Total - December 31, 2017 $	Total - December 31, 2016 $
Bank loan	-	-	-	-	32,000
Accounts payable and accrued liabilities	242,833	-	-	242,833	218,233
Tenants' deposits	13,664	-	-	13,664	12,713
Project financing including interest (note 11)	129,261	361,681	1,399,258	1,890,200	2,431,038
Interest rate swap	222	-	-	222	1,582
	385,980	361,681	1,399,258	2,146,919	2,695,566

20 Prior period adjustment

During the year, management determined that the presentation of a new financing arrangement with Infrastructure Ontario in 2016, summarized in note 11(e)(iv), was incorrectly reflected in the consolidated statement of cash flows for the year ended December 31, 2016.

The portion of the loan proceeds totalling $39,029, which was restricted for future capital expenditures (restricted loan proceeds) and deposited directly into an investment account (owned and controlled by TCHC), should be excluded from the consolidated statement of cash flows under PSAS. Previously, the restricted loan proceeds were reflected in the consolidated statement of cash flows for the year ended December 31, 2016 as a cash inflow under financing activities with a corresponding cash outflow under investing activities.

Consequently, an adjustment was recorded to the previously issued consolidated financial statements that resulted in a decrease to the cash inflows from new project financing and debenture loans (under financing activities) with a corresponding increase to the cash inflows from changes in investments and restricted investments (under investing activities) for the year ended December 31, 2016. There is no impact to the consolidated statement of financial position including the reported cash balance as at December 31, 2016, the consolidated statements of operations, changes in net assets, and remeasurement gains and losses - unrestricted for the year then ended.

(in thousands of dollars)

21 Comparative balances

Certain comparative balances for revenues and expenses reported on the consolidated statement of operations have been reclassified to conform to the current year's presentation.

22 Subsequent events

There is one material transaction that has taken place after December 31, 2017:

250 Davenport land sale:

On January 18, 2018, TCHC sold land to a developer with a carrying value of $833 and received cash of $8,749 and a loan receivable of $21,250. The loan receivable bears interest of 3% per annum until the earlier of four years from the closing date and the final closing of the sale of all market units.