

Item 6A - Toronto Community Housing Corporation's 2020
Consolidated Draft Audited Financial Statements and
KPMG Year-end Report
TCHC April 27, 2021 Board Meeting
Report #:TCHC:2021-24
Attachment 1

DRAFT #4
April 16, 2021

Consolidated Financial Statements of

**TORONTO COMMUNITY
HOUSING CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Toronto Community Housing Corporation

Opinion

We have audited the consolidated financial statements of Toronto Community Housing Corporation (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of remeasurement gains and losses - unrestricted for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated results of operations, its consolidated remeasurement gains and losses, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the consolidated financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 29, 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash (note 15) | \$ 134,824 | \$ – |
| Investments (notes 2, 15 and 20) | 219,608 | 149,608 |
| Restricted cash for externally restricted purposes (notes 5(d), 11(c) and (e)) | 6,266 | 6,581 |
| Accounts receivable (notes 5(a), 15 and 20) | 52,646 | 94,704 |
| Loans receivable (note 4) | 12,029 | 5,335 |
| Grants receivable (note 12(b)) | 68,292 | 11,272 |
| Prepaid expenses, deposits and other assets | 14,781 | 12,555 |
| | <u>508,446</u> | <u>280,055</u> |
| Loans receivable (note 4) | 59,947 | 55,188 |
| Grants receivable (note 12(b)) | 11,250 | 12,186 |
| Investments in joint ventures (note 3) | 13,234 | 15,257 |
| Capital Asset Replace Reserve (note 13) | – | 60,644 |
| Cash for capital expenditures under restrictions with lenders (note 11(e)) | – | 135,650 |
| Receivable from the City of Toronto (note 5(b)) | 19,325 | 19,325 |
| Housing projects acquired or developed (note 6) | 1,694,018 | 1,681,823 |
| Improvements to housing projects (note 7) | 2,003,447 | 1,807,770 |
| Assets held for sale (note 8) | 2,790 | 3,069 |
| Prepaid lease | 745 | 801 |
| | <u>\$ 4,313,202</u> | <u>\$4,071,768</u> |

| | 2020 | 2019 |
|---|---------------------|--------------------|
| Liabilities and Accumulated Surplus | | |
| Current liabilities: | | |
| Bank loan and bank indebtedness (note 9) | \$ — | \$ 68,917 |
| Accounts payable and accrued liabilities (notes 5(a) and 6) | 221,065 | 248,541 |
| Tenants' deposits and rents received in advance | 17,577 | 16,884 |
| Deferred revenue | 18,643 | 12,643 |
| Project financing and debenture loans (note 11) | 82,448 | 70,434 |
| | <u>339,733</u> | <u>417,419</u> |
| Capital Asset Replace Reserve (note 13) | — | 60,644 |
| Deferred revenue on long-term leases | 1,670 | 1,070 |
| Deferred revenue on land sale (notes 3(d) and (f)) | 16,728 | 14,228 |
| Employee benefits (note 10) | 82,398 | 79,961 |
| Project financing and debentures loans (note 11) | 1,736,011 | 1,690,826 |
| Deferred capital contributions (note 12(a)) | 1,062,088 | 751,952 |
| | <u>3,238,628</u> | <u>3,016,100</u> |
| Accumulated surplus: | | |
| Share capital: | | |
| Authorized and issued: | | |
| 100 common shares | 1 | 1 |
| Internally restricted funds (notes 13 and 15) | 245,884 | 186,579 |
| Contributed surplus | 5,136 | 5,136 |
| Unrestricted surplus | 823,553 | 863,952 |
| | <u>1,074,574</u> | <u>1,055,668</u> |
| Contingencies (note 16) | | |
| Commitments (note 19) | | |
| Subsequent events (note 22) | | |
| | <u>\$ 4,313,202</u> | <u>\$4,071,768</u> |

See accompanying notes to consolidated financial statements.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Consolidated Statement of Operations
(In thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|------------------|--------------------|
| Revenue: | | |
| Subsidies (note 5(c)) | \$ 244,960 | \$ 232,474 |
| Rent: | | |
| Residential | 349,431 | 340,082 |
| Commercial | 16,949 | 15,932 |
| Amortization of deferred capital contributions (note 12(a)) | 59,849 | 58,321 |
| Parking, laundry and cable fees | 18,489 | 18,974 |
| Investment | 9,308 | 11,472 |
| Joint venture (note 3) | 4,371 | 2,750 |
| Safe Restart program (note 5) | 9,877 | – |
| Gain on sale of housing projects, land and other capital assets (note 17) | 29,951 | 6,230 |
| Capital asset replacement reserve (note 13) | 61,518 | – |
| Plant and other | 7,840 | 6,023 |
| | <u>812,543</u> | <u>692,258</u> |
| Expenses: | | |
| Operating and maintenance (note 18) | 248,785 | 205,966 |
| Utilities | 129,404 | 125,028 |
| Municipal taxes | 19,339 | 18,489 |
| Depreciation | 213,356 | 198,326 |
| Interest (note 11) | 78,410 | 78,853 |
| Community safety services | 35,086 | 30,676 |
| Corporate services | 61,421 | 71,441 |
| Plant and other (note 8) | 9,636 | 6,780 |
| | <u>795,437</u> | <u>735,559</u> |
| Excess (deficiency) of revenue over expenses | <u>\$ 17,106</u> | <u>\$ (43,301)</u> |

See accompanying notes to consolidated financial statements.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Consolidated Statement of Changes in Net Assets (In thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

| | Share capital | Internally restricted funds | Contributed surplus | Unrestricted surplus | Accumulated Remeasurement gains (loss) | Total |
|---|---------------|-----------------------------|---------------------|----------------------|--|---------------------|
| 2020 | | | | | | |
| Net assets, January 1, 2020 | \$ 1 | \$ 186,579 | \$ 5,136 | \$ 863,952 | \$ -- | \$ 1,055,668 |
| Excess of revenue over expenses | – | – | – | 17,106 | – | 17,106 |
| Net change in unrealized gains on portfolio investments | – | – | – | – | 1,800 | 1,800 |
| Reallocation of unrealized gains (losses) attributable to portfolio investments held for internally restricted purposes (note 15) | – | 1,800 | – | – | (1,800) | – |
| Capital asset replacement reserve (note 13) | – | 61,518 | – | (61,518) | – | – |
| Educational tax savings (note 15) | – | (17,366) | – | 17,366 | – | – |
| Change in internally restricted funds (note 15) | – | 13,353 | – | (13,353) | – | – |
| Net assets, December 31, 2020 | \$ 1 | \$ 245,884 | \$ 5,136 | \$ 823,553 | \$ – | \$ 1,074,574 |
| 2019 | | | | | | |
| Net assets, January 1, 2019 | \$ 1 | \$ 189,951 | \$ 5,136 | \$ 898,333 | \$ 2,929 | \$ 1,096,350 |
| Deficiency of revenue over expenses | – | – | – | (43,301) | – | (43,301) |
| Net change in unrealized gains on portfolio investments | – | – | – | – | 2,619 | 2,619 |
| Reallocation of unrealized gains attributable to the interest rate swap | – | – | – | 5,983 | (5,983) | – |
| Reallocation of unrealized gains (losses) attributable to portfolio investments held for internally restricted purposes (note 15) | – | 2,619 | – | (3,054) | 435 | – |
| Change in internally restricted funds (note 15) | – | (5,991) | – | 5,991 | – | – |
| Net assets, December 31, 2019 | \$ 1 | \$ 186,579 | \$ 5,136 | \$ 863,952 | \$ – | \$ 1,055,668 |

See accompanying notes to consolidated financial statements.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Consolidated Statement of Remeasurement Gains and Losses - Unrestricted
(In thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|--|---------|----------|
| Accumulated remeasurement gains - unrestricted, beginning of year | \$ - | \$ 2,929 |
| Accumulated remeasurement gains for the year - unrestricted: | | |
| Net change in unrealized gains attributable to portfolio investments | 1,800 | 2,619 |
| Reallocation of unrealized gains attributable to portfolio investments held for internally restricted purposes (note 15) | (1,800) | 435 |
| Reallocation of unrealized gains attributable to the interest rate swap | - | (5,983) |
| | - | (2,929) |
| Accumulated remeasurement gains - unrestricted, end of year | \$ - | \$ - |

See accompanying notes to consolidated financial statements.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Consolidated Statement of Cash Flows

(In thousands of dollars)

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|--|-------------|-------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 17,106 | \$ (43,301) |
| Items not involving cash: | | |
| Amortization of deferred capital contributions (note 12(a)) | (59,849) | (58,321) |
| Depreciation | 213,356 | 198,326 |
| Gain on sale of housing projects, land and other capital assets (note 17) | (29,951) | (6,230) |
| Capital asset write-off | – | 30 |
| Imputed interest on loan (note 11) | 40 | 40 |
| Joint venture income (note 3) | (4,371) | (2,750) |
| Employee benefit obligations (note 10) | 2,437 | 504 |
| Capital asset replacement reserve (note 13) | (61,518) | – |
| Impairment loss (note 8) | 5,323 | 3,335 |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | 43,466 | (15,171) |
| Prepaid expenses | (1,455) | (1,697) |
| Accounts payable and accrued liabilities | 35,537 | 8,413 |
| Tenants' deposits and rents received in advance | 693 | 390 |
| Deferred revenue | 9,100 | 5,719 |
| | 169,914 | 89,287 |
| Financing activities: | | |
| Borrowing of bank loan (note 9) | (68,917) | 22,617 |
| Deferred financing cost (note 11) | 167 | (77) |
| New project financing and debenture loans (note 11) | 100,159 | 151,499 |
| Repayment of project financing (note 11) | (43,167) | (50,953) |
| Contributions for capital asset replacement reserve (note 13) | – | 9,177 |
| Restricted grants for housing projects | 318,058 | 198,218 |
| | 306,300 | 330,481 |
| Capital activities: | | |
| Acquisition of housing projects | (130,897) | (82,507) |
| Proceeds on sale of housing projects (note 17) | 524 | – |
| Proceeds on sale of land (note 17) | 20,059 | 183 |
| Improvements to housing projects | (370,758) | (398,969) |
| | (481,072) | (481,293) |
| Investing activities: | | |
| Receipt of loans receivable | 2,749 | 17,916 |
| Decrease (increase) in cash for capital expenditures under restrictions with lenders | 135,650 | (18,202) |
| Increase in capital asset replacement reserve | – | (8,897) |
| Decrease (increase) in investments | (5,343) | 2,171 |
| Contributions to joint ventures (note 3) | (15) | (15) |
| Distributions from joint ventures (note 3) | 6,326 | 9,924 |
| Decrease in restricted cash (note 11(e)) | 315 | 24,954 |
| | 139,682 | 27,851 |
| Increase (decrease) in cash | 134,824 | (33,674) |
| Cash, beginning of year | – | 33,674 |
| Cash, end of year | \$ 134,824 | \$ – |
| Supplemental cash flow information: | | |
| Change in accrued capital expenditures | \$ (65,692) | \$ 4,415 |
| Other non-cash expenditures | 879 | 1,255 |
| Issuance of loans receivable (note 4(a)(i)) | 14,202 | 2,291 |

See accompanying notes to consolidated financial statements.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2020

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 affect 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.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Since the first quarter of 2020, the COVID-19 pandemic has impacted the global economy environment due to government-imposed lockdowns and social distancing requirements. The economic conditions and TCHC's response to the COVID-19 pandemic has an operational and financial impact on TCHC. The full extent of the financial impact is currently indeterminable due to the evolving nature of the COVID-19 pandemic.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

1. 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:

(a) 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")

All intercompany transactions and balances have been eliminated.

TCHC Issuer Trust (the "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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

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. ("LDI")
- Allenbury Gardens Revitalization General Partnership ("AGP")
- Alexandra Park Phase I Partnership ("APPI")
- Alexandra Park Phase II Partnership ("APP II")
- 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.

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 3 provides further information on RPAD.

TCHC administers a number of funds pursuant to an agreement with the City. 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.

(b) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

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

(c) 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 | 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 and debenture loans | Financial liabilities | Amortized cost |

(d) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

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:

- 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.

(e) 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.

(f) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(g) 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 write downs 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 an associated 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 |

(h) Deferred capital contributions:

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

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(i) 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.

(j) 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 year. Significant estimates include determining the amounts for future employee benefits, the allowance for uncollectible accounts receivable and contingent liabilities. The full extent of the impact that COVID-19 pandemic, including government and regulatory responses to the pandemic, will have on the Canadian economy remains uncertain at this time. Actual results could differ from those estimates.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(k) 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, 2020, 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.

2. Investments:

Current investments consists \$219,608 (2019 - \$149,608) of pooled equity funds, fixed income securities and high savings interest rate bank account, which are restricted internally for internally restricted funds. The fixed income securities consist of corporate and Canadian government fixed income securities with nominal coupon rates between 0.50% and 5.95% (2019 - 1.34% and 5.34%) and have maturity dates ranging from 2021 to 2080 (2019 - 2020 to 2028). These securities are considered to be highly liquid (notes 15 and 20).

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests:

| 2020 | DPDC (a) | PGDC (b) | LDI (c) | AGP (d) | APPI (e) | APPII (f) | LNP (g) | Total |
|---|-----------------|-----------------|--------------|------------------|-----------------|--------------|-----------------|------------------|
| Balance, January 1, 2020, per joint venture | \$ 1,791 | \$ (109) | \$ 149 | \$ 12,662 | \$ 12,344 | \$ – | \$ 26,376 | \$ 53,213 |
| Net income (loss) | 290 | 256 | (3) | 419 | 4,522 | – | (41) | 5,443 |
| Contributions | 15 | – | – | – | – | – | – | 15 |
| Distributions | (397) | (1,050) | (110) | (2,100) | (15,245) | – | – | (18,902) |
| Balance, December 31, 2020, per joint venture | 1,699 | (903) | 36 | 10,981 | 1,621 | – | 26,335 | 39,769 |
| Exchange amount of land transferred to joint venture | (112) | – | – | – | – | – | (27,018) | (27,130) |
| Carrying value of land transferred to joint venture | 23 | 27 | – | – | – | – | 300 | 350 |
| Pre-development costs | – | – | – | 245 | – | – | – | 245 |
| Balance, December 31, 2020 | \$ 1,610 | \$ (876) | \$ 36 | \$ 11,226 | \$ 1,621 | \$ – | \$ (383) | \$ 13,234 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

| 2020 | DPDC (a) | PGDC (b) | LDI (c) | AGP (d) | APPI (e) | APPII (f) | LNP (g) | Total |
|---|-------------|-------------|------------|-------------|-------------|--------------|------------|----------|
| Joint ventures' assets, liabilities and cash flows at 100% share | | | | | | | | |
| Total assets | \$ 5,586 | \$ 14,260 | \$ 133 | \$ 146,897 | \$ 7,125 | \$ 4,545 | \$ 144,972 | |
| Total liabilities | 2,197 | 16,638 | 67 | 130,886 | 3,880 | 2,045 | 103,869 | |
| Cash flow from (used in) operating activities | \$ 850 | \$ 1,222 | \$ (237) | \$ (35,123) | \$ 23,793 | \$ (2,500) | \$ (207) | |
| Cash flow from (used in) financing activities | (1,002) | (2,291) | – | 30,235 | (20,041) | 2,500 | – | |
| Cash flow used in investing activities | – | – | – | 5,204 | – | – | – | |
| Net income (loss) per joint venture | \$ 290 | \$ 256 | \$ (3) | \$ 419 | \$ 4,522 | \$ – | \$ (41) | \$ 5,443 |
| Write off pre-development costs associated with market units that have sold | – | – | – | (2) | (1,070) | – | – | (1,072) |
| Net income (loss) per TCHC | \$ 290 | \$ 256 | \$ (3) | \$ 417 | \$ 3,452 | \$ – | \$ (41) | \$ 4,371 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

| 2019 | DPDC (a) | PGDC (b) | LDI (c) | AGP (d) | APPI (e) | LNP (f) | Total |
|---|-------------|-------------|------------|-------------|-------------|------------|-----------|
| Balance, January 1, 2019, per joint venture | \$ 1,885 | \$ 1,980 | \$ 300 | \$ 16,841 | \$ 12,238 | \$ 26,878 | \$ 60,122 |
| Net income (loss) | 241 | 1,720 | 14 | 1,421 | 107 | (503) | 3,000 |
| Contributions | 15 | – | – | – | – | – | 15 |
| Distributions | (350) | (3,809) | (165) | (5,600) | – | – | (9,924) |
| Balance, December 31, 2019, per joint venture | 1,791 | (109) | 149 | 12,662 | 12,345 | 26,375 | 53,213 |
| Exchange amount of land transferred to joint venture | (112) | – | – | – | (12,576) | (27,018) | (39,706) |
| Carrying value of land transferred to joint venture | 23 | 27 | – | – | 94 | 300 | 444 |
| Pre-development costs | – | – | – | 236 | 1,070 | – | 1,306 |
| Balance, December 31, 2019, per TCHC | \$ 1,702 | \$ (82) | \$ 149 | \$ 12,898 | \$ 933 | \$ (343) | \$ 15,257 |
| Joint ventures' assets, liabilities and cash flows at 100% share | | | | | | | |
| Total assets | \$ 6,020 | \$ 16,050 | \$ 346 | \$ 102,456 | \$ 87,520 | \$ 124,885 | |
| Total liabilities | 24,456 | 17,139 | 74 | 84,044 | 72,982 | 83,742 | |
| Cash flow from (used in) operating activities | \$ 730 | \$ 5,802 | \$ 26 | \$ (16,631) | \$ (676) | \$ (4,716) | |
| Cash flow from (used in) financing activities | (641) | (6,685) | – | 3,112 | – | 2,589 | |
| Cash flow used in investing activities | – | – | – | 6,792 | – | – | |
| Net income (loss) per joint venture | \$ 241 | \$ 1,720 | \$ 14 | \$ 1,421 | \$ 107 | \$ (503) | \$ 3,000 |
| Write off pre-development costs associated with market units that have sold | – | (164) | – | (9) | (77) | – | (250) |
| Net income (loss) per TCHC | \$ 241 | \$ 1,556 | \$ 14 | \$ 1,412 | \$ 30 | \$ (503) | \$ 2,750 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

- (a) On October 31, 2006, 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 operates through a nominee 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 (2019 - \$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, 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. Furthermore, RPDC's 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, 2020, the difference between the exchange amount and the carrying value of the land of \$27 (2019 - \$27) will be recognized on the sale of market units that have been developed by PGDC.
- (c) On May 22, 2009, TCHC's wholly owned subsidiary, RLDC, entered into a co-tenancy agreement with a developer for the construction of certain properties. The co-tenancy operates through a nominee corporation, LDI.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

- (d) On February 5, 2013, TCHC's wholly owned subsidiary, AGDC, entered into a partnership agreement with a developer, thus forming 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 April 27, 2018, TCHC transferred land with a carrying value of \$92 to Vivo Residences Inc. in exchange for a promissory note for \$4,815 (note 4(b)). 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, 2020, TCHC recognized deferred revenue on land sale of \$4,723 (2019 - \$4,723), no revenue has been recognized to date.

On August 15, 2018, TCHC transferred land with a carrying value of \$108 to Verde Residences Inc. in exchange for a promissory note for \$8,155 (note 4(b)). 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, 2020, TCHC recognized deferred revenue on land sale of \$8,047 (2019 - \$8,047), 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, 2020, the difference is due to AGDC recording contributed pre-development costs of \$245 (2019 - \$236), which will be written off in the year market units are closed.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

- (e) On July 19, 2013, TCHC's wholly owned subsidiary, APDC, entered into a partnership agreement with a developer, forming APPI, for the revitalization of certain properties in Alexandra Park. APDC and the developer have equal 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 pre-development expenses until the first construction advance, and all costs incurred by the partnership are capitalized in APPI as at December 31, 2020 and 2019.

As at December 31, 2019, the value of APDC's equity investment in APPI differed from the balance reported by the partnership. This difference was due to APDC recording land contributed 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 partners. In 2020 on the closing of market units developed by APPI, the difference of \$12,482 between the exchange amount and the carrying value of the land was recognized as gain on sale of housing projects, land and other capital assets (note 17(a)), and development costs of \$1,070 associated with market units sold were written off (note 6).

- (f) On June 30, 2020, TCHC's wholly owned subsidiary, APDC, entered into a partnership agreement with a developer, forming APPII, for the revitalization of certain properties in Alexandra Park. APDC and the developer have equal interests in the partnership, which operates through a nominee corporation, Dundas Alexandra Park Residences Inc. ("DARPI"), 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 pre-development expenses until the first construction advance, and all costs incurred by the partnership are capitalized in APPII as at December 31, 2020.

On July 20, 2020, TCHC's wholly owned subsidiary, APDC, received an initial deposit of \$2,500 from APPII. The initial deposit will be credited as a deposit on account of the purchase price for the initial market phase.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

3. Investments in joint ventures and other interests (continued):

- (g) On October 2, 2015, TCHC's wholly owned subsidiary, LNDC, entered into a partnership agreement with a developer, forming 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 pre-development expenses until the first construction advance, and all costs incurred by the partnership have been capitalized in LNP as at December 31, 2020 and 2019.

As at December 31, 2020, the value of LNDC's equity investment in LNP differs from the balance reported by the partnership. This difference is due to LNDC recording land contributed to LNP at the carrying value of the land whereas LNP has recorded the contributed land at an exchange amount that has been agreed to by the two partners. The difference of \$26,718 (2019 - \$26,718) between the exchange amount and the carrying value of the land will be recognized on the closing of market units that have been developed by LNP.

- (h) 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 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 sublets 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 and was renewed 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 assignment of one dollar annual rent to the lender in the event of default. In 2020, RPAD repaid the first leasehold mortgage.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

4. Loans receivable:

| | 2020 | 2019 |
|--|-----------|-----------|
| DPDC (a) | \$ 16,046 | \$ 2,082 |
| AGP (b) | 12,970 | 12,970 |
| Lawrence Heights development partner (c) | 8,370 | 11,211 |
| 250 Davenport (d) | 23,186 | 22,512 |
| Mortgages receivable (e) | 11,404 | 11,748 |
| | 71,976 | 60,523 |
| Less current portion | 12,029 | 5,335 |
| | \$ 59,947 | \$ 55,188 |

(a) The DPDC loans receivable consists of:

- (i) On August 31, 2010, TCHC provided a \$500 revolving demand facility and a \$2,500 non-revolving term loan to the co-tenancy, which consists of three credit facilities:
 - Facility 1 - revolving demand facility to \$500. The facility bears interest at the bank's prime rate plus 0.5% per annum and is repayable five days following demand for repayment by the lender.
 - Facility 2 - non-revolving term loan to \$2,000. The facility bears interest at 6.0% per annum and is repayable on demand.
 - Facility 3 - non-revolving term loan to \$500. The facility bears interest at 6.0% per annum and is repayable on demand.

The three credit facilities are secured by the co-tenancy's land and assets and are guaranteed by the co-tenancy partner. As at December 31, 2020, TCHC has advanced \$1,844 (2019 - \$2,082) to DPDC.

- (ii) On September 18, 2020, TCHC sold land to a developer with a carrying value of \$302 and received cash of \$3,551 and a loan receivable of \$14,202, bearing no interest in the first year and bears 4.5% per annum thereafter with a maturity date of September 18, 2022.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

4. Loans receivable (continued):

- (b) On April 27, 2018, TCHC transferred land with a carrying value of \$92 to Vivo Residences Inc. in exchange for a promissory note for \$4,815 (note 3(d)). On August 15, 2018, TCHC transferred land with a carrying value of \$108 to Verde Residences Inc. in exchange for a promissory note for \$8,155 (note 3(d)).
- (c) On July 11, 2018, TCHC transferred land to a developer with a carrying value of \$726 and received cash of \$2,137 and a loan receivable of \$4,986, bearing interest at a rate of 3% per annum with a maturity date of July 11, 2021 and a loan receivable of \$3,000, bearing no interest with a maturity date of March 31, 2023. As at December 31, 2020, TCHC recognized interest receivable of \$384 (2019 - \$225), which is included in loans receivable.

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, bearing interest of 3% with a maturity date of November 14, 2019 and loan receivable of \$3,000 bearing no interest rate with maturity date of March 31, 2020. The loan amount of \$3,610 and \$3,000 were repaid in 2019 and 2020, respectively.

- (d) On January 17, 2018, TCHC transferred land to a developer with a carrying value of \$834 and received cash of \$8,750, a letter of credit of \$2,000 and a loan receivable of \$21,250, bearing interest at a rate of 3% per annum with a maturity date at the earlier of four years from the closing date and the final closing of the sale of all market units. As at December 31, 2020, TCHC recognized interest receivable of \$1,936 (2019 - \$1,262), which is included in loans receivable.
- (e) The mortgages receivable consist 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

5. Account balances 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 \$37,820 (2019 - \$54,643) receivable from the City and included in accounts payable and accrued liabilities is \$6,128 (2019 - \$5,487) 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 (2019 - \$4,269) for sick leave benefits (note 10(a)) and \$15,056 (2019 - \$15,056) for post-retirement (note 10(a)) and disability benefits (note 10(a)).

- (c) During the year ended December 31, 2020, the City provided gross subsidies of \$244,960 (2019 - \$232,474), which are reflected on the consolidated statement of operations as revenue. Expenditures incurred with the City include \$61,334 (2019 - \$55,192) for water and waste, \$19,339 (2019 - \$18,489) for property taxes and \$3,953 (2019 - \$2,772) for the mortgage interest charges paid to the City.
- (d) 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, 2020, accumulated grants of \$10,250 (2019 - \$10,026) were received and the accumulated capital expenditures were \$3,063 (2019 - \$4,601). The funds available for future capital expenditures are \$5,367 (2019 - \$5,624), including \$38 (2019 - \$199) accumulated interest, invested as restricted cash as at December 31, 2020
- (e) The City allocated Safe Restart program funding of \$9,877 to TCHC for 2020. The Safe Restart program is a federal investment to help provinces and territories safely restart their economies.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

6. Housing projects acquired or developed:

Housing projects acquired or developed consist of the following:

| | Cost, December 31 2019 ⁽ⁱ⁾ | Addition | Transfer back (note 8) | Disposal/ write-off/ transfer ⁽ⁱⁱ⁾ | Completed during the year | Cost, December 31 2020 | Accumulated depreciation ⁽ⁱⁱⁱ⁾ | Net book value, December 31 2020 |
|--|---|------------------|------------------------------|---|---------------------------------|------------------------------|--|---|
| Land | \$ 375,731 | \$ 31 | \$ 3,587 | \$ (3,278) | \$ – | \$ 376,071 | \$ – | \$ 376,071 |
| Buildings | 2,121,145 | 4,944 | 4,459 | (3,919) | 6,880 | 2,133,509 | (1,031,352) | 1,102,157 |
| Guaranteed Equity Housing projects | 10,949 | – | – | (321) | – | 10,628 | (6,507) | 4,121 |
| Plant | 64,484 | 2 | – | (53) | 7,263 | 71,696 | (14,951) | 56,745 |
| Housing projects under construction | 109,962 | 66,988 | – | (7,883) | (14,143) | 154,924 | – | 154,924 |
| Balance, December 31, 2020 | \$ 2,682,271 | \$ 71,965 | \$ 8,046 | \$ (15,454) | \$ – | \$ 2,746,828 | \$ (1,052,810) | \$ 1,694,018 |

⁽ⁱ⁾ As at December 31, 2019, housing projects acquired or developed were recorded at a cost of \$2,682,271 with accumulated depreciation of \$1,000,448.

⁽ⁱⁱ⁾ Included in transfers and accumulated depreciation is the cost and accumulated depreciation of land and buildings transferred to assets held for sale (note 8).

As at December 31, 2020, the additions of housing projects acquired or developed include capitalized interest of nil (2019 - \$397).

During the year ended December 31, 2020, pre-development costs totalling \$1,072 (2019 - \$250) (note 3) were written off and \$245 (2019 - \$1,306) (note 3) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

6. Housing projects acquired or developed (continued):

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, 2020, TCHC repurchased 3 units and holds 52 repurchased units as at December 31, 2020. The associated cost and accumulated depreciation of \$266 of the repurchased units was transferred to housing projects acquired or developed and rented at the market rate. As at December 31, 2020, an obligation of \$9,281 (2019 - \$9,669) for the repurchase of guaranteed equity units has been recorded in accounts payable and accrued liabilities.

7. Improvements to housing projects:

Improvements to housing projects consist of the following:

| | Cost, December 31, 2019 | Additions | Transfer/ completed ⁽ⁱ⁾ | Cost, December 31, 2020 | Accumulated depreciation | Net book value, December 31, 2020 |
|---|-------------------------------|-------------------|---------------------------------------|-------------------------------|-----------------------------|--|
| Improvements to land and buildings ⁽ⁱ⁾ | \$ 2,736,174 | \$ 336,414 | \$ (4,528) | \$ 3,068,060 | \$ (1,138,622) | \$ 1,929,438 |
| Furniture and equipment | 216,465 | 13,867 | 18,628 | 248,960 | (180,046) | 68,914 |
| Leasehold improvements | 3,006 | – | – | 3,006 | (2,966) | 40 |
| Other capital work-in-process | 9,668 | 14,687 | (19,300) | 5,055 | – | 5,055 |
| | <u>\$ 2,965,313</u> | <u>\$ 364,968</u> | <u>\$ (5,200)</u> | <u>\$ 3,325,081</u> | <u>\$ (1,321,634)</u> | <u>\$ 2,003,447</u> |

⁽ⁱ⁾ Transfer includes capitalized costs allocated to asset held for sale based on square footage (note 8).

Improvements to housing projects include assets under capital leases with a carrying value of \$1,707 (2019 - \$3,200).

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

8. Assets held for sale:

During 2018, the Board of Directors resolved to transfer the ownership of the TCHC Agency Houses, Scattered Homes and Uninhabitable Homes portfolio to non-profit corporations as approved by City Council.

In 2020, TCHC classified 54 Scattered Homes as assets held for sale as directed by City Council. The transfer price of \$2,790 is based on bid from top-ranked proponent. As at December 31, 2020, TCHC has assessed an impairment loss of \$5,323 (2019 - \$3,335) on 52 (2019 - 21) properties.

In 2020, land of \$3,587 and buildings of \$4,459 that were previously classified as assets held for sale in 2019 were reclassified to housing projects acquired or developed (note 6) due to a delay in the expected transfer timing beyond 12 months from year-end.

The assets which are expected to be transferred within 12 months have been classified as held for sale and are presented separately in the consolidated statement of financial position.

| | Cost, December 31, 2019 | Additions | Transfers | Cost December 31 2020 | Accumulated depreciation | Impairment loss | Net book value, December 31, 2020 |
|-----------|-------------------------------|-----------|------------|-----------------------------|-----------------------------|--------------------|--|
| Land | \$ 3,911 | \$ 2,161 | \$ (3,587) | \$ 2,485 | \$ – | \$ (1,630) | \$ 855 |
| Buildings | 5,379 | 6,987 | (4,459) | 7,907 | (2,279) | (3,693) | 1,935 |
| | \$ 9,290 | \$ 9,148 | \$ (8,046) | \$ 10,392 | \$ (2,279) | \$ (5,323) | \$ 2,790 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

9. Bank loan and bank indebtedness:

TCHC has a committed revolving credit facility of \$200,000 (2019 - \$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 ("BA") at the bank's BA rate plus 1.10%. Short-term advances of nil (2019 - \$68,600) have been used and are repayable on or before maturity of December 31, 2020. The amount available under the facility is \$195,875 (2019 - \$129,225), which is net of outstanding letters of credit of \$4,125 (2019 - \$2,175).

As at December 31, 2020, TCHC had nil (2019 - \$317) in bank indebtedness.

10. Employee benefits:

TCHC has the following employee benefits plans:

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

The following benefit plan liabilities as at December 31, 2020 are based on the most recent tri-annual actuarial valuation that has been completed as at December 31, 2018:

(i) 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(a)(iv)) to all City employees and retirees. An amount of \$15,056 (2019 - \$15,056), representing the liability portion relating to the former THC, is recorded as a long-term receivable from the City (note 5(b)).

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

10. Employee benefits (continued):

(ii) Accumulating sick leave benefits:

The accrued benefit obligation is based on the most recent actuarial valuation that was completed as at December 31, 2018. 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, 2020, \$1,126 (2019 - \$1,126) unionized employees are eligible for sick leave 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 (2019 - \$4,678), less \$409 (2019 - \$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, 2020, the liability was recorded as \$518 (2019 - \$621).

(iii) 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.

The following benefit plan liabilities as at December 31, 2020 are based on the most recent annual actuarial valuation that has been completed as at December 31, 2020:

(iv) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

10. Employee benefits (continued):

- (v) 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.

- (b) Supplementary employee retirement plan ("SERP"):

The following benefits plan liabilities as at December 31, 2020 are based on the most recent tri-annual actuarial valuation that has been completed as at December 31, 2020:

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.

- (c) 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 2020, the OMERS funded ratio stands at 97.0% (2019 - 97.0%) and the primary plan ended 2020 with a funding deficit of \$3.2 billion (2019 - \$3.4 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

10. Employee benefits (continued):

Depending on the individual's normal retirement age and pensionable earnings, 2020 contribution rates were 9.0% to 14.6% (2019 - 9.0% to 14.6%). Total employee contributions amounted to \$14,535 (2019 - \$13,252). Total employer contributions amounted to \$14,535 (2019 - \$13,252).

Employee benefits liabilities of TCHC:

| | 2020 | 2019 |
|---------------------------------|------------------|------------------|
| Post-retirement benefits (a)(i) | \$ 17,154 | \$ 16,528 |
| Sick leave benefits (a)(ii) | 12,892 | 12,688 |
| Termination benefits (a)(iii) | 1,475 | 1,421 |
| Disability benefits (a)(iv) | 6,445 | 5,754 |
| WSIB obligation (a)(v) | 9,683 | 10,130 |
| Unamortized actuarial gain | 538 | 577 |
| Other benefits | 48,187 | 47,098 |
| SERP (b) | 34,211 | 32,863 |
| | \$ 82,398 | \$ 79,961 |

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

| | SERP | | Other benefits | | Total | |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Accrued benefit obligation | \$ 39,164 | \$ 37,672 | \$ 50,686 | \$ 46,313 | \$ 89,850 | \$ 83,985 |
| Plan assets | (1,656) | (895) | - | - | (1,656) | (895) |
| Unamortized actuarial gain (loss) | (3,297) | (3,914) | (2,499) | 785 | (5,796) | (3,129) |
| Accrued benefit liability | \$ 34,211 | \$ 32,863 | \$ 48,187 | \$ 47,098 | \$ 82,398 | \$ 79,961 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

10. Employee benefits (continued):

Continuity of TCHC's accrued benefit liabilities:

| | SERP | | Other benefits | | Total | |
|-----------------------------------|-----------|-----------|----------------|-----------|-----------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Balance, beginning of year | \$ 32,863 | \$ 32,572 | \$ 47,098 | \$ 46,885 | \$ 79,961 | \$ 79,457 |
| Current service cost | 453 | 388 | 1,879 | 1,595 | 2,332 | 1,983 |
| Interest cost | 1,051 | 1,167 | 801 | 895 | 1,852 | 2,062 |
| Benefits paid | – | – | (1,917) | (2,302) | (1,917) | (2,302) |
| Actuarial loss (gain) | 5,084 | 3,200 | 2,825 | (760) | 7,909 | 2,440 |
| Funding contributions | (1,943) | (550) | – | – | (1,943) | (550) |
| Unamortized actuarial gain (loss) | (3,297) | (3,914) | (2,499) | 785 | (5,796) | (3,129) |
| Balance, end of year | \$ 34,211 | \$ 32,863 | \$ 48,187 | \$ 47,098 | \$ 82,398 | \$ 79,961 |

TCHC's employee benefits expense:

| | SERP | | Other benefits | | Total | |
|---------------------------------------|----------|--------|----------------|----------|----------|----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current service cost | \$ 453 | \$ 388 | \$ 1,879 | \$ 1,595 | \$ 2,332 | \$ 1,983 |
| Interest cost | 1,051 | 1,167 | 801 | 895 | 1,852 | 2,062 |
| Amortization of actuarial loss (gain) | 1,787 | (714) | 326 | 25 | 2,113 | (689) |
| Balance, end of year | \$ 3,291 | \$ 841 | \$ 3,006 | \$ 2,515 | \$ 6,297 | \$ 3,356 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

10. Employee benefits (continued):

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 | |
|---|-------|-------|----------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Discount rates for benefit obligations: | | | | |
| Post-retirement and sick leave | – | – | 1.7% | 2.60% |
| Post-employment Pension | – | – | 0.9% | 2.30% |
| | 2.15% | 2.80% | – | – |
| Discount rates for benefit costs: | | | | |
| Post-retirement and sick leave | – | – | 2.60% | 3.20% |
| Post-employment Pension | – | – | 2.30% | 2.80% |
| | 2.80% | 3.50% | – | – |
| Rate of compensation increase | 2.75% | 2.75% | 3.00% | 3.00% |
| Inflation rate | 2.00% | 2.00% | 2.00% | 2.00% |
| Healthcare inflation - select | n/a | n/a | 5.31% | 5.35% |
| Healthcare inflation - ultimate | n/a | n/a | 4.00% | 4.00% |
| Expected rate of return on plan assets | – | – | n/a | n/a |
| Actual rate of return on plan assets | 0.00% | 0.17% | n/a | n/a |

For measurement purposes, a 7.30% annual rate of increase in the per capita cost of covered health-care benefits was assumed. The rate is assumed to decrease gradually to 4.00% by 2040 and remain at that level thereafter.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans:

Project financing consists of mortgages, loans payable to the Canada Mortgage and Housing Corporation ("CMHC"), City, Infrastructure Ontario ("IO") and others and debentures. The changes in project financing for the year ended December 31, 2020 are as follows:

| | December 31, 2019 | New project financing | Imputed interest on loans | Mortgages and loans payments | Deferred financing costs | December 31, 2020 |
|--|----------------------|-----------------------------|---------------------------------|------------------------------------|--------------------------------|----------------------|
| Canada Mortgage and Housing Corporation ("CMHC") (a) | \$ 122,138 | \$ 85,987 | \$ — | \$ (12,752) | \$ (47) | \$ 195,326 |
| Other mortgages (b) | 137,476 | — | — | (11,900) | — | 125,576 |
| Long-term loans payable to the City (c) | 108,968 | 10,239 | 40 | (4,379) | 1 | 114,869 |
| Long-term loans payable to others (d) | 21,447 | — | — | (2,296) | 2 | 19,153 |
| Long-terms loans payable to IO (e) | 925,444 | 3,933 | — | (11,840) | 70 | 917,607 |
| Debenture loans used in project financing (f) | 445,787 | — | — | — | 141 | 445,928 |
| | 1,761,260 | \$ <u>100,159</u> | \$ <u>40</u> | \$ <u>(43,167)</u> | \$ <u>167</u> | 1,818,459 |
| Less current portion | 70,434 | | | | | 82,448 |
| | \$ 1,690,826 | | | | | \$ 1,736,011 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

For the year ended December 31, 2020, interest incurred on long-term debt totalled \$78,410 (2019 - \$78,853) has been recorded as interest expense in the consolidated statement of operations and nil (2019 - \$397) has been capitalized (note 6). All mortgages ((a), (b) and (d)) and loans payable to the City and IO ((c) and (e)) and the capital leasing facility ((c)(ii)) have their underlying assets pledged as security. The remaining loans are unsecured.

Principal repayments are due as follows:

| | CMHC | Other mortgages | City | Other loans | IO | Debenture loans used in project financing | Total |
|---|------------|-----------------|------------|-------------|------------|---|--------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | |
| 2021 | \$ 13,707 | \$ 32,746 | \$ 4,522 | \$ 2,375 | \$ 29,098 | \$ – | \$ 82,448 |
| 2022 | 13,541 | 13,145 | 4,669 | 2,457 | 22,855 | – | 56,667 |
| 2023 | 13,737 | 12,508 | 4,449 | 2,541 | 23,694 | – | 56,929 |
| 2024 | 12,048 | 11,929 | 4,276 | 2,629 | 24,564 | – | 55,446 |
| 2025 | 12,028 | 12,363 | 4,443 | 2,719 | 25,466 | – | 57,019 |
| 2026 and thereafter | 130,320 | 42,883 | 92,529 | 6,443 | 793,536 | 450,000 | 1,515,711 |
| Deferred financing charges on project financing | (54) | – | (19) | (12) | (1,603) | (4,073) | (5,761) |
| | \$ 195,327 | \$ 125,574 | \$ 114,869 | \$ 19,152 | \$ 917,610 | \$ 445,927 | \$ 1,818,459 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

- (a) CMHC mortgages bear interest at rates between 0.68% and 11.00% (2019 - 1.39% and 11.00%). These mortgages mature between 2021 and 2032.

On December 20, 2019, a financing agreement was signed between TCHC and CMHC. TCHC expects to receive loans up to \$1,341,058 to fund eligible expenditures under the capital repair program between 2020 and 2027. The amount is based on a current portfolio of 58,860 units and a reduction below the current portfolio will result in a proportionate reduction in the amount. The loans contain a repayable amount up to \$813,546 and a forgivable amount up to \$527,512. The repayable amount is interest bearing at fixed interest rate determined by the lender at the time of each advance and is amortized over 30 years. The forgivable loan amount is forgivable over a 20-year period subject to TCHC meeting certain terms and conditions as outlined in the financing agreement.

Pursuant to the financing arrangement with CMHC, TCHC submitted claims in 2020 and received a total amount of \$187,565 comprised:

- (i) repayable loans of \$85,987 which includes \$57,878 bearing interest of 1.32% and \$28,109 bearing interest of 0.64%; and
- (ii) forgivable loans of \$101,598 (note 12(b)(ii)).
- (b) Other mortgages bear interest at rates between 1.82% and 12.75% (2019 - 2.65% and 12.75%). These mortgages mature between 2021 and 2048.

Other mortgages also include a credit facility of \$20,000 which was repaid in January 2021 with Royal Bank of Canada to finance interim construction related to one of TCHC's refurbishment projects. The loan was provided by way of a revolving credit facility in the form of a Prime Rate loan or BA loan with 0.62% stamping fee.

- (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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

- (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, proceeds of \$19,801 were used to repay the existing loans and \$32,610 was restricted for future capital expenditures for specific properties. As at December 31, 2020, \$52 (2019 - \$52) of the proceeds remain 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.
 - (iii) Beginning 2017, TCHC has a non-revolving, 20-year loan of \$35,948 (2019 - \$34,709) with the City to finance the implementation of 9 energy efficiency projects at TCHC facilities. The loans were provided at a fixed interest rate of 3.7% for a 20-year term with repayment beginning December 15, 2019.
 - (iv) Beginning 2019, TCHC has received first two tranches of a non-revolving 20-year loan of \$19,000 (2019 - \$10,000) with the City to finance the implementation of 39 energy efficient generators at TCHC facilities. The loan was provided at a fixed interest rate of 2.6% for a 20-year term with repayment beginning April 1, 2021.
 - (v) Other loans from the City bear interest at rates between 2.75% and 4.12% (2019 - 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, 10-year loan of \$19,153 (2019 - \$21,447) to assist with the financing of the construction for Phase 1 of its Building Renewal Program, which was completed in 2009. The loan was provided at a fixed interest rate of 3.39% with repayment beginning March 15, 2018.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

- (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 \$25,168 (2019 - \$19,564) of the aggregate annual effective gross income from the refinanced properties.
 - (ii) On December 2, 2020, TCHC has entered into an Omnibus Amending Agreement with IO to amend existing loan agreements to provide for the release of capital expenditure reserves on specific refinanced properties and 4.00% of the aggregate annual effective gross income from the refinanced properties to be utilized on TCHC's general portfolio.

TCHC incurred financing costs of \$2,479 (2019 - \$1,987) related to the origination and maintenance of the IO funding with an unamortized deferred financing cost of \$1,603 (2019 - \$1,673) as at December 31, 2020.

During the year ended December 31, 2020, TCHC repaid \$11,840 (2019 - \$22,545) toward the principal of the loans.

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, which has been fully repaid on November 1, 2018, and \$139,203 that matures on November 2, 2043. 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 principal and interest repayment terms and, as at December 31, 2020, are secured by the 18 refinanced properties.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

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, 2020, nil (2019 - \$7,453) is included in cash for capital expenditures under restrictions with lenders.

- (ii) On October 27, 2014, TCHC finalized a financing transaction with IO of \$49,710 (the 2014 IO financing), consisting 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, 2020, nil (2019 - \$1,369) is included in cash 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, 2020, nil (2019 - \$6,116) is included in cash 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 10 refinanced properties and \$39,029 was restricted for capital expenditures for the 10 refinanced properties.

As at December 31, 2020, nil (2019 - \$24,714) is included in cash for capital expenditures under restrictions with lenders.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

- (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.

As at December 31, 2020, nil (2019 - \$61,062) is included in cash 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, 2020, TCHC is in compliance of the financial covenants as stipulated in this financing arrangement.

As at December 31, 2020, nil (2019 - \$146) is included in cash 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, 2020, nil (2019 - \$24,847) is included in cash for capital expenditures under restrictions with lenders.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

(viii) On February 7, 2019, TCHC finalized a financing transaction with IO for \$76,500 (the 2018 IO financing), consisting of a non-revolving loan at a fixed interest rate of 3.55% for a term of 30 years. Loan proceeds of \$19,337 were reimbursed to TCHC, subsequent to paying out maturing mortgages of eight refinanced properties in prior periods, \$9,298 was restricted for capital expenditures for the eight refinanced properties and \$47,865 was restricted for capital expenditures for TCHC's general residential portfolio.

As at December 31, 2020, nil (2019 - \$9,943) is included in cash for capital expenditures under restrictions with lenders.

(ix) On June 4, 2019, TCHC finalized a financing transaction with IO for up to \$40,222. As at December 31, 2020, TCHC has drawn on \$40,222 (2019 - \$36,290), consisting of a non-revolving construction loan at a variable interest rate for a two-year term from the date of the first construction loan advance, June 30, 2019. The construction loan will be converted to a non-revolving term loan at a fixed interest rate for a term of 30 years before June 4, 2021. Loan proceeds of \$40,222 were reimbursed to TCHC, subsequent to incurring construction costs related to development of Regent Park project.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

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

| | Restricted cash for externally restricted purposes | Cash for capital expenditures under restrictions with lenders | December 31, 2020 total | Restricted cash for externally restricted purposes | Cash for capital expenditures under restrictions with lenders | December 31, 2019 Total |
|---|--|---|-------------------------|--|---|-------------------------|
| IO financing: | | | | | | |
| 2013 | \$ — | \$ — | \$ — | \$ — | \$ 7,453 | \$ 7,453 |
| 2014 | — | — | — | — | 1,369 | 1,369 |
| 2015 | — | — | — | — | 6,116 | 6,116 |
| 2016 | — | — | — | — | 24,714 | 24,714 |
| 2017 | — | — | — | — | 86,055 | 86,055 |
| 2018 | — | — | — | — | 9,943 | 9,943 |
| | — | — | — | — | 135,650 | 135,650 |
| Externally restricted funds received in 2014 - the City | 52 | — | 52 | 52 | — | 52 |
| Other externally restricted cash | 6,214 | — | 6,214 | 6,529 | — | 6,529 |
| | \$ 6,266 | \$ — | \$ 6,266 | \$ 6,581 | \$ 135,650 | \$ 142,231 |

- (f) TCHC has entered into a credit agreement (the "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 (2019 - \$250,000) of this loan for long-term financings of social housing projects. TCHC incurred financing costs of \$3,297 (2019 - \$3,297), which reduced the carrying value of the related debt and are amortized over the term of the debt. Amortization of \$92 (2019 - \$87) and interest expense of \$12,193 (2019 - \$12,193) were recorded.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

11. Project financing and debenture loans (continued):

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

TCHC has used \$200,000 (2019 - \$200,000) of this loan for long-term financings of social housing projects. TCHC incurred financing costs of \$2,121 (2019 - \$2,121), which reduced the carrying value of the related debt and are amortized over the same term as the debt. Amortization of \$49 (2019 - \$44) and interest expense of \$10,790 (2019 - \$10,790) were recorded.

12. Deferred capital contributions and grants receivable:

(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:

| | | |
|--|-----------|------------------|
| Balance, beginning of year | \$ | 751,952 |
| Restricted grants for housing projects ((b)(ii)) | | 372,854 |
| Transfer from capital asset replacement reserve for approved expenditure | | 1,337 |
| Amortization of deferred capital contributions | | (59,849) |
| Disposal of properties with unamortized deferred capital contributions (note 17) | | (4,206) |
| Balance, end of year | \$ | 1,062,088 |

(b) As at December 31, 2020, the grants receivable comprise:

| | 2020 | 2019 |
|---|-----------|-----------|
| Provincial affordability housing grants (i) | \$ 12,185 | \$ 13,081 |
| Contributions receivable from the City (ii) | 67,357 | 10,377 |
| | 79,542 | 23,458 |
| Less current portion | 68,292 | 11,272 |
| | \$ 11,250 | \$ 12,186 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

12. Deferred capital contributions and grants receivable (continued):

- (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. As at December 31, 2020, \$12,185 (2019 - \$13,081) has been set up as a grant receivable.
- (ii) 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 \$4,279 (2019 - \$6,551) in 2020.

In 2020, the City approved funding of \$160,000 and \$34,321 from the Shelter, Support & Housing Administration ("SSHA") to TCHC to address its state of good repair backlog for 2020. TCHC received the contribution of \$160,000 (2019 - \$50,096) in 2020 and expect to receive \$34,321 in 2021 for eligible work performed in 2020.

During 2019, the City approved funding of \$133,111 to TCHC for the retrofit of 12 apartment buildings with 150 units or more in order to reduce greenhouse gas emissions and improve energy efficiency. TCHC received \$46,533 (2019 - \$57,105) in 2020 and expect to receive \$27,874 in 2021 for eligible work performed in 2020. The Balance of \$1,600 (2019 - \$69,908) will be recorded as grants receivable when TCHC incurs eligible costs.

During 2020, the City approved funding of \$9,000 to TCHC for Ontario Priorities Housing Initiative ("OPHI") program to renovate, repair and rehabilitate the affordable social housing located at seven apartment buildings. TCHC received \$4,500 in 2020 and expect to receive \$2,162 in 2021 for eligible work performed in 2020. The balance of \$2,338 will be recorded as grants receivable when TCHC incurs eligible costs.

On December 20, 2019, a financing agreement was signed between TCHC and CMHC. TCHC expects to receive forgivable amount up to \$527,512. The forgivable loan amount is forgivable over a 20-year period subject to TCHC meeting certain terms and conditions as outlined in the financing agreement. In 2020, TCHC received forgivable loans of \$101,598 (note 11(a)).

During 2020, the City approved funding of \$6,947 to TCHC through the Section 37 funding towards the affordable housing projects. TCHC received \$474 in 2020 and expect to receive \$3,000 in 2021 for eligible work performed in 2020. The balance of \$3,473 will be recorded as grants receivable when TCHC incurs eligible costs.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

13. Capital Asset Replacement Reserve ("CARR"):

On May 13, 2020, TCHC, under the Housing Services Act, 2011 Chapter 6, Schedule 1(84)1, notified the City that it considers the co-investment fund and the approval of the permanent funding model of the Capital Repair Program to be a "triggering event" to release the previous restriction and redirect the existing CARR balance and future contributions to fund the internally restricted sinking fund of public debentures.

On October 8, 2020, the City approved and directed TCHC to apply the existing CARR balance as at December 31, 2019 to the internally restricted sinking fund of public debentures, and annually contribute to the internally restricted fund in an amount equal to what would have been contributed to the CARR. Accordingly, TCHC released the restriction on the CARR and recognized revenue of \$61,518 (2019 - nil). As directed by the City, TCHC allocated the annual contribution to the internally restricted fund as disclosed in the consolidated statement of changes in net assets.

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:

| | 2020 | | 2019 | |
|---------------------------------|-----------|-------------|-----------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Toronto Affordable Housing Fund | \$ 10,326 | \$ 8,269 | \$ 10,086 | \$ 8,269 |

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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

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 2). 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 1).

On February 27, 2019, the Board of Directors approved to consolidate TCHC's internally restricted reserve funds of debt service reserve fund to sinking fund of public debentures, development risk reserve fund to a capital risk reserve fund and legal contingencies fund to a working capital fund. The purpose of the consolidation is to effectively utilize internally restricted cash and investments in the remaining four reserve funds.

On October 8, 2020, the City approved to redirect TCHC's externally restricted CARR as at December 31, 2019 to internally restricted sinking fund of public debentures. The investment of the fund shall be subject to TCHC's Board of Directors approved investment policy.

As at December 31, 2020, the funds comprise cash of \$217 and investments of \$220,217, including \$609 of accrued investment income recorded in accounts receivable (2019 - cash of \$215, investments of \$150,380 and \$772 of accrued investment income).

Internally restricted funds consist of the following:

| | Capital risk reserve fund (a) | State of good repair fund (b) | Sinking fund of public debentures (c) | Working capital reserve fund (d) | Total |
|---|---|---|---|--|-------------------|
| Balance, January 1, 2020 | \$ 51,112 | \$ 37,152 | \$ 46,478 | \$ 51,837 | \$ 186,579 |
| Contributions | – | – | 9,091 | – | 9,091 |
| Capital asset replacement reserve | – | – | 61,518 | – | 61,518 |
| Transfer to unrestricted surplus | – | (17,366) | – | – | (17,366) |
| Net investment income | 2,866 | – | 2,214 | 36 | 5,116 |
| Fair value adjustments for investment held | 1,269 | – | 519 | 12 | 1,800 |
| Expenditures | (115) | (571) | (166) | (2) | (854) |
| Balance, December 31, 2020 | \$ 55,132 | \$ 19,215 | \$ 119,654 | \$ 51,883 | \$ 245,884 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

15. Internally restricted funds (continued):

| | Capital risk reserve fund | State of good repair fund | Sinking fund of public debentures | Working capital reserve fund | Total |
|-----------------------------------|------------------------------------|------------------------------------|--|---------------------------------------|-------------------|
| | (a) | (b) | (c) | (d) | |
| Cash | \$ – | \$ 217 | \$ – | \$ – | \$ 217 |
| Investment | 48,680 | – | 119,654 | 51,883 | 220,217 |
| Balance, December 31, 2020 | \$ 48,680 | \$ 217 | \$ 119,654 | \$ 51,883 | \$ 220,434 |

As at December 31, 2020, the state of good repair fund and capital risk reserve fund have a shortfall of \$18,998 (2019 - \$35,984) and \$6,452 (2019 - nil) respectively. The shortfall can be funded from TCHC's revolving credit facilities (note 9) should expenditures relating to the fund arise.

(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.

Since the Capital Repair Program has been fully funded, TCHC has redirected \$17,366 to the unrestricted surplus.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

15. Internally restricted funds (continued):

(c) Sinking fund of public debentures:

TCHC has entered into the 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. Starting from 2020, CARR balance was also included in sinking fund of public debentures (note 13).

(d) 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.

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 12), should it fail to adhere to the terms and conditions under which the loans were originally granted. As at December 31, 2020, the amount of forgivable loans is \$212,804 (2019 - \$107,853).
- (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, 2020, 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) In 2020 on the closing of market units developed by APPI, TCHC recognized a net gain on land of \$12,482 for properties in Alexandra Park (note 3(e)).
- (b) On September 18, 2020, TCHC transferred land to a developer with a carrying value of \$302 and housing projects under construction of \$3,027, TCHC recorded a loan receivable of \$14,202 (note 4(a)(ii)) and cash \$3,551. As at December 31, 2020, TCHC recognized a net gain on land of \$14,424.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

17. Gain on sale of housing projects, land and other capital assets (continued):

- (c) On October 8, 2020, TCHC received additional consideration for land transfer price from a developer and received cash of \$4,026. During 2020, TCHC recognized additional gain on land of \$4,026.
- (d) On November 8, 2020, TCHC transferred Athletic Grounds to the City with a carrying value of \$5,057 in consideration of government grants of \$4,116. As at December 31, 2020, TCHC recognized net a loss of \$941.
- (e) During 2020, TCHC sold 9 agency houses to non-profit corporations and received cash of \$524 and recorded account receivable \$20, with a carrying value of land \$264, building \$456 and disposed deferred capital contribution of \$90 and other expenses of \$5. As at December 31, 2020, TCHC recognized net loss on sale of properties of \$81.
- (f) For the year ended December 31, 2020, TCHC disposed of other capital assets and recognized a gain of \$41.

18. Operating and maintenance:

During the year ended December 31, 2020, TCHC incurred following costs attributable to COVID-19 pandemic which are included under the operating and maintenance expense.

| | 2020 | 2019 |
|--|-----------|------|
| Wages and overtime | \$ 13,168 | \$ — |
| Personal protective equipment Supplies | 11,234 | — |
| Utilities | 3,538 | — |
| | \$ 27,940 | \$ — |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

19. Commitments:

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

| | Operating lease | Other (b) | Total |
|---------------------|--------------------|--------------|------------|
| 2021 | \$ 1,966 | \$ 256,390 | \$ 258,356 |
| 2022 | 1,827 | — | 1,827 |
| 2023 | 1,835 | — | 1,835 |
| 2024 | 1,819 | — | 1,819 |
| 2025 | 1,748 | — | 1,748 |
| 2026 and thereafter | 4,294 | — | 4,294 |
| | \$ 13,489 | \$ 256,390 | \$ 269,879 |

(b) As at December 31, 2020, TCHC has commitments of \$256,390 to vendors for capital repairs and services to be performed over the next 12 months.

20. Fair value and risk management:

(a) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

20. Fair value and risk management (continued):

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

| 2020 | Level 1 | Level 2 | Level 3 | Total |
|--|------------|---------|---------|------------|
| Investments and restricted investments | \$ 219,608 | \$ – | \$ – | \$ 219,608 |

| 2019 | Level 1 | Level 2 | Level 3 | Total |
|--|------------|---------|---------|------------|
| Investments and restricted investments | \$ 149,608 | \$ – | \$ – | \$ 149,608 |

(b) 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.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

20. Fair value and risk management (continued):

(a) 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, 2020 would have increased by \$1,105. For every 1% decrease in the investment rate of return, the investments held by TCHC as at December 31, 2020 would have decreased by \$1,105.

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 bi-annual basis by TCHC's Investment Advisory Committee, which reports to TCHC's Building Investment, Finance and Audit Committee.

(b) 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 expenses over revenue. As at December 31, 2020, floating rate debt represented 3.33% (2019 - 6.84%) of total debt obligations.

As at December 31, 2020, the effect on unrestricted surplus of a 50 basis point absolute change in the market interest rate of the floating rate debt obligations is \$301 (2019 - \$624).

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

20. Fair value and risk management (continued):

(ii) Credit risk:

(a) 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 bi-annual 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.

(b) 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, 2020.

(c) Accounts receivable from the City credit risk:

TCHC recorded the long-term receivable from the City in 2001. TCHC and the City mutually agreed to a repayment schedule. The City acknowledges the amount payable. TCHC believes it is not exposed to significant credit risk as a result of non-payment.

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended December 31, 2020

20. Fair value and risk management (continued):

(d) Accounts receivable credit risk:

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

As at December 31, 2020, the following is the aging of accounts receivable:

| | 30 days | 60 days | 90 days | 120 days | Over 120 days | Total |
|---------------------|-----------|----------|----------|----------|---------------|-----------|
| Accounts receivable | \$ 43,472 | \$ 2,980 | \$ 6,144 | \$ (17) | \$ 67 | \$ 52,646 |

Total accounts receivable of \$52,646 (2019 - \$94,704) comprises the City and other receivables of \$46,752 (2019 - \$86,533) and tenant accounts receivable, net of allowance for doubtful accounts, of \$5,894 (2019 - \$8,172).

(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 \$195,875 to meet its current and future obligations.

The table below is a maturity analysis of TCHC's financial liabilities as at December 31, 2020:

| | | | | 2020 | 2019 |
|--|--------------|--------------------------------|-------------------|--------------|--------------|
| | Up to 1 year | More than 1 year up to 5 years | More than 5 years | Total | Total |
| Bank loan | \$ - | \$ - | \$ - | \$ - | \$ 68,917 |
| Accounts payable and accrued liabilities | 221,064 | - | - | 221,064 | 248,541 |
| Tenants' deposits | 15,404 | - | - | 15,404 | 15,189 |
| Project financing including interest (note 11) | 170,546 | 499,632 | 2,205,304 | 2,875,482 | 2,005,219 |
| | \$ 407,014 | \$ 499,632 | \$ 2,205,304 | \$ 3,111,950 | \$ 2,337,866 |

TORONTO COMMUNITY HOUSING CORPORATION

DRAFT Notes to Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2020

21. Comparative statements:

Certain comparative balances have been reclassified from the consolidated financial statements previously presented to conform to the presentation of the 2020 consolidated financial statements.

22. Subsequent events:

(a) COVID-19:

TCHC negotiated with IO to defer loan payments between August 2020 and January 2021, which resulted in an overall deferral of \$26,348 in principal and interest payments as at December 31, 2020. The deferred payments were repaid in February 2021. As at December 31, 2020, \$16,004 of deferred interest payable was included in accounts payable and accrued liabilities.

(b) 389 Church Street:

In January 2021 TCHC received \$25,000 as payment for the commencement of a 50-year commercial lease for the land and building located at 389 Church Street. TCHC and the tenant agreed to the premises being used for residential services through the lease term.

(c) Scattered properties:

On February 26, 2021, TCHC's Board of Directors approved the sale of scattered properties. Assets that are likely to be transferred in 2021 have been classified as "assets held for sale".

(d) Don Mount Court Development Corporation ("DMCDC"):

On February 1, 2021 TCHC filed documents to dissolve its wholly owned subsidiary, DMCDC, after previously receiving consent for dissolution from the Ministry of Finance. DMCDC is expected to be dissolved in 2021.