

**British Columbia Housing
Management Commission
Financial Statements
March 31, 2014**

British Columbia Housing Management Commission

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Statement of Management Responsibility

The financial statements of the British Columbia Housing Management Commission (the Commission) are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 21, 2014. The financial statements have also been reviewed by the Audit and Risk Management Committee and approved by the Board of Commissioners.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Risk Management Committee.

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present the Commission's financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards. The Independent Auditor's Report, which follows, outlines the scope of their examination and their opinion.

The Board of Commissioners, through the Audit and Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and Risk Management Committee meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Commissioners. The Audit and Risk Management Committee also recommends the appointment of an external auditor to the Board of Commissioners. The external auditor has full and open access to the Audit and Risk Management Committee, with and without the presence of management.



Shayne Ramsay
Chief Executive Officer



Dan Maxwell
Vice President of Corporate Services
And Chief Financial Officer

May 21, 2014



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Independent Auditor's Report

To the Board of Commissioners of British Columbia Housing Management Commission

We have audited the accompanying financial statements of the British Columbia Housing Management Commission which comprise the Statement of Financial Position as at March 31, 2014 and the Statements of Operations, Change in Net Debt, Remeasurement Gains and Losses and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the British Columbia Housing Management Commission as at March 31, 2014, and the results of its operations, change in net debt, remeasurement gains and losses and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

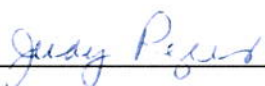
Vancouver British Columbia
May 21, 2014

Statement of Financial Position

| | March 31 2014 (\$000's) | March 31 2013 (\$000's) |
|--|-------------------------------|-------------------------------|
| Financial Assets | | |
| Cash | \$ 2,494 | \$ 4,610 |
| Portfolio investments (Note 3) | 87,210 | 107,320 |
| Receivables | 17,158 | 15,466 |
| Due from Province of British Columbia (Note 15) | 834 | 386 |
| Due from Canada Mortgage and Housing Corporation (Note 15) | 17,301 | 18,938 |
| Construction loans to housing projects (Note 4) | 178,426 | 137,732 |
| Mortgages receivable (Note 5) | 10,297 | 1,391 |
| | <u>313,720</u> | <u>285,843</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 35,242 | 35,347 |
| Deferred revenue (Note 6) | 61,286 | 57,725 |
| Due to Provincial Rental Housing Corporation (Note 7) | 26,763 | 47,976 |
| Tenants' prepaid rent | 956 | 1,118 |
| Due to Provincial Treasury | 130,433 | 82,234 |
| Society funds held on deposit (Note 8) | 18,600 | 17,499 |
| Grants received in advance of construction (Note 9) | 56,546 | 60,592 |
| Social Housing Agreement Reserves (Note 10) | 7,468 | 9,099 |
| | <u>337,294</u> | <u>311,590</u> |
| Net debt | <u>(23,574)</u> | <u>(25,747)</u> |
| Non-financial assets | | |
| Prepaid expenses and housing subsidies | 26,502 | 25,925 |
| Tangible capital assets (Note 11) | 10,388 | 11,392 |
| | <u>36,890</u> | <u>37,317</u> |
| Accumulated surplus | <u>13,316</u> | <u>11,570</u> |
| Accumulated surplus is comprised of: | | |
| Accumulated surplus from operations | 2,239 | 2,211 |
| Accumulated remeasurement gains | 11,077 | 9,359 |
| | <u>\$ 13,316</u> | <u>\$ 11,570</u> |

Commitments (Note 14)
Contingencies (Note 16)

On behalf of the Board

 Chair

See accompanying notes to the financial statements

British Columbia Housing Management Commission

Statement of Operations

| Year Ended March 31 | 2014 Budget (Note 12) (\$000's) | 2014 Actuals (\$000's) | 2013 Actuals (\$000's) |
|--|--|------------------------------|------------------------------|
| Revenue | | | |
| Provincial contributions | \$ 392,101 | \$ 384,632 | \$ 421,312 |
| Federal contributions | 167,743 | 160,070 | 178,251 |
| Tenant rent | 37,602 | 36,697 | 39,115 |
| Other | 13,869 | 17,155 | 16,305 |
| Portfolio investment income (Notes 2 & 3) | 3,100 | 11,602 | 1,597 |
| | <u>614,415</u> | <u>610,156</u> | <u>656,580</u> |
| Expenses | | | |
| Housing subsidies | 393,290 | 388,236 | 436,519 |
| Rental assistance | 91,200 | 90,428 | 86,510 |
| Salaries and labour | 51,103 | 50,251 | 49,724 |
| Operating expenses | 20,652 | 22,383 | 22,440 |
| Building maintenance | 12,306 | 12,490 | 14,503 |
| Office and overhead | 9,642 | 10,014 | 8,983 |
| Building modernization and improvement | 10,212 | 9,512 | 10,510 |
| Building mortgage costs | 8,672 | 8,672 | 8,718 |
| Utilities | 8,379 | 8,571 | 8,427 |
| Grants in lieu of property taxes (Note 13) | 7,446 | 6,687 | 7,694 |
| Research and education | 913 | 2,114 | 1,667 |
| Interest expense | 600 | 770 | 843 |
| | <u>614,415</u> | <u>610,128</u> | <u>656,538</u> |
| Annual surplus from operations | | <u>28</u> | <u>42</u> |
| Accumulated surplus from operations at beginning of year | | <u>2,211</u> | <u>2,169</u> |
| Accumulated surplus from operations, end of year | | <u>\$ 2,239</u> | <u>\$ 2,211</u> |

See accompanying notes to the financial statements

British Columbia Housing Management Commission

Statement of Cash Flows

| Year Ended March 31 | 2014 (\$000's) | 2013 (\$000's) |
|---|-------------------|-------------------|
| Cash flows provided by (used in) | | |
| Operating transactions | | |
| Annual surplus from operations | \$ 28 | \$ 42 |
| Adjustments to determine cash flows: | | |
| Change in non-cash working capital | 2,214 | 25,754 |
| Depreciation | 4,045 | 5,041 |
| | <u>6,287</u> | <u>30,837</u> |
| Capital transactions | | |
| Tangible capital asset additions | <u>(3,041)</u> | <u>(5,531)</u> |
| Investing transactions | | |
| Construction loans provided to housing projects | (40,694) | 47,450 |
| Portfolio investments | 23,398 | (1,597) |
| Mortgages receivable | (8,906) | (900) |
| | <u>(26,202)</u> | <u>44,953</u> |
| Financing transactions | | |
| Grants received in advance of construction | (4,046) | 15,905 |
| Due to Provincial Treasury | 48,199 | (58,685) |
| Payments to Provincial Rental Housing Corporation | (21,213) | (10,825) |
| Social Housing Agreement Reserves | (3,201) | (7,352) |
| Society funds held on deposit | 1,101 | (6,140) |
| | <u>20,840</u> | <u>(67,097)</u> |
| Increase (decrease) in cash | (2,116) | 3,162 |
| Cash, beginning of year | <u>4,610</u> | <u>1,448</u> |
| Cash, end of year | <u>\$ 2,494</u> | <u>\$ 4,610</u> |

See accompanying notes to the financial statements

British Columbia Housing Management Commission

Statement of Remeasurement Gains and Losses

| Year Ended March 31 | 2014 (\$000's) | 2013 (\$000's) |
|--|-------------------|-------------------|
| Accumulated remeasurement gains, beginning of year | \$ <u>9,359</u> | \$ <u>2,573</u> |
| Gains realized and released to income statement | (8,166) | - |
| Unrealized gains attributable to portfolio investments | <u>9,884</u> | <u>6,786</u> |
| Net remeasurement gains for the year | <u>1,718</u> | <u>6,786</u> |
| Accumulated remeasurement gains, end of year | \$ <u>11,077</u> | \$ <u>9,359</u> |

Statement of Change in Net Debt

| Year Ended March 31 | Budget (\$000's) (note 12) | 2014 (\$000's) | 2013 (\$000's) |
|---|----------------------------------|--------------------|--------------------|
| Annual surplus from operations | | \$ 28 | \$ 42 |
| Net remeasurement gains | | <u>1,718</u> | <u>6,786</u> |
| | | 1,746 | 6,828 |
| Depreciation of tangible capital assets | | 4,045 | 5,041 |
| Acquisition of tangible capital assets | <u>(5,000)</u> | <u>(3,041)</u> | <u>(5,531)</u> |
| | (5,000) | 1,004 | (490) |
| Acquisition of prepaid expenses and housing subsidies | | (293,039) | (286,590) |
| Use of prepaid expenses and housing subsidies | | <u>292,462</u> | <u>285,599</u> |
| | | (577) | (991) |
| Changes in net debt for the year | | 2,173 | 5,347 |
| Net debt, beginning of year | | <u>(25,747)</u> | <u>(31,094)</u> |
| Net debt, end of year | | \$ <u>(23,574)</u> | \$ <u>(25,747)</u> |

See accompanying notes to the financial statements

British Columbia Housing Management Commission

Notes to the Financial Statements

March 31, 2014

1. General

The British Columbia Housing Management Commission is a Crown agency, established in 1967, responsible for developing new social housing under Provincial Housing Programs administering the Province's Shelter Aid for Elderly Renters program, Rental Assistance Program, licensing of builders, overseeing the third-party home warranty insurance system; and administering a variety of other federal and/or provincial housing programs. The Commission manages public housing stock and administers agreements relating to units managed by housing sponsors. The Commission ensures that provincial housing policy is reflected in its programs and that these are delivered in a co-ordinated, cost-effective manner. The Commission is exempt from federal and provincial income taxes.

2. Significant Accounting Policies

Basis of presentation

These financial statements have been prepared in accordance with Province of British Columbia, Ministry of Finance regulation 688-2010 that requires taxpayer-supported organizations to adopt Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

Use of Estimates

In preparing these financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimating the useful life of capital assets and the write-down of proposal development advances require the greatest degree of estimation. Actual results could differ from those estimates.

Revenue Recognition

Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recognized as revenue in the period in which the related expenses are incurred.

Tenant Rent Revenue

Tenant rent revenue represents rent charged to residents, and is determined as the lesser of market rent and a percentage of each resident's income.

British Columbia Housing Management Commission

Notes to the Financial Statements

March 31, 2014

2. Significant accounting policies (con't)

Tangible Capital Assets

Tangible capital assets are recorded at cost and depreciated over their estimated useful lives.

Desktop applications and computer hardware are depreciated on a three year amortization period. Server applications and communications hardware and components are depreciated on a five year amortization period. Enterprise applications are depreciated on a ten year amortization period. All other capital assets are depreciated over a five year amortization period.

Employee Benefit Plans

The employees and employers of the public service contribute to the Public Service Pension Plan (the Plan), a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 56,000 active plan members and approximately 37,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation as at March 31, 2011, indicated an actuarial deficit of \$275 million for basic pension benefits. The next valuation will be as at March 31, 2014 with results available in early 2015. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. The Commission paid \$3,768,026 for employer contributions to the Plan in fiscal 2014 (2013: \$3,753,462).

Financial Instruments

The Commission's financial instruments consist of cash, portfolio investments, receivables, due from the Province of British Columbia, due from Canada Mortgage and Housing Corporation, mortgages receivable, construction loans to housing projects, accounts payable and accrued liabilities, due to Provincial Rental Housing Corporation, due to Provincial Treasury and Society funds held on deposit. These financial instruments are accounted for as follows:

Portfolio Investments

Portfolio investments are recognized at their fair value, determined by published price quotations in an active market. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Realized gains and losses are recognized in the operating statement and unrealized gains/losses from changes in fair value are recorded in the statement of remeasurement gains and losses.

Other Financial Instruments

All other financial instruments are recorded on the cost or amortized cost basis using the effective interest rate method where appropriate.

British Columbia Housing Management Commission

Notes to the Financial Statements

March 31, 2014

3. Portfolio Investments

BC Housing invests funds held on behalf of non-profit housing providers, funds for specific reserves and funds provided by ministries for specific housing projects. These investments are held in pooled investments and managed by two investment management firms. Income derived under the investments are reinvested into the portfolio. An investment committee meets periodically to review the performance of the fund managers and ensure compliance with the BC Housing investment policy. Quarterly reports are provided to the Board. The investment policy has the following asset target components: 40% Fixed Income, 30% Canadian Equity; and 30% International Equity. The market yield over fiscal 13/14 was 13.9%.

4. Construction Loans to Housing Projects

In its capacity as a National Housing Act approved lender, the Commission funds construction draws for societies who are building approved projects under social housing programs. These advances are repaid at substantial completion of each project from financing arranged with private lenders. The average period of construction financing can range from 18 months to over two years. Societies are charged interest at the Province's weighted average borrowing rate for short-term funds, plus administration costs.

5. Mortgages Receivable

The Commission periodically continues to hold construction financing mortgages receivable after construction completes. In all but rare situations, these mortgages are tendered for take-out financing provided by private sector financial institutions within twelve months of the construction completion date. These mortgages are secured by property and bear interest of up to 3.95% and generally are repaid within a year.

6. Deferred Revenue

These funds are restricted contributions received in advance of related expenditures that are incurred in the following fiscal year.

| | | Contributions | | Revenue | |
|---|-----------|---------------|--------------|-----------|--|
| | 2013 | Received | Recognized | 2014 | |
| | (\$000's) | (\$000's) | (\$000's) | (\$000's) | |
| Provincial Contributions | \$ 37,843 | \$ 363,597 | \$ (370,540) | \$ 30,900 | |
| Canada Mortgage and Housing Corporation | 17,043 | 166,253 | (154,817) | 28,479 | |
| Other Agencies | 2,839 | 2,426 | (3,358) | 1,907 | |
| | \$ 57,725 | \$ 532,276 | \$ (528,715) | \$ 61,286 | |

The Social Housing Agreement Reserves (Note 10) represent further restricted contributions from Canada Mortgage and Housing Corporation of a long term nature.

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Notes to the Financial Statements

March 31, 2014

7. Due to Provincial Rental Housing Corporation

Amounts represent funds advanced for the acquisition and development of properties under social housing programs. The advances are non-interest bearing with no set terms of repayment. Provincial Rental Housing Corporation (PRHC) is a Crown corporation managed by the Commission.

8. Society Funds Held on Deposit

These funds represent the balance of mortgage advances held to cover various non-profit society construction and soft costs required to complete their projects. Interest accrues on the society funds at the Province's weighted average borrowing rate for short term funds.

9. Grants received in advance of construction

The Commission receives funds from the Province and Canada Mortgage and Housing Corporation (CMHC), the use of which is restricted to the construction of specific social housing projects.

| | 2013 (\$000's) | Grants received (\$000's) | Construction costs incurred (\$000's) | 2014 (\$000's) |
|-----------------------------------|-------------------|---------------------------------|---|-------------------|
| Project Grants | \$ 11,817 | \$ 4,849 | \$ (5,145) | \$ 11,521 |
| Provincial Economic Stimulus Fund | - | 7,614 | (7,614) | - |
| Provincial FCI Fund | - | 4,696 | (4,696) | - |
| Provincial CAII Fund | - | 9,851 | (9,851) | - |
| CMHC - IAH | 27,588 | 19,846 | (12,680) | 34,754 |
| CMHC - SHA | 14,583 | 3,160 | (8,222) | 9,521 |
| Ministry - Other | 6,605 | | (5,855) | 750 |
| | \$ 60,593 | \$ 50,016 | \$ (54,063) | \$ 56,546 |

10. Social Housing Agreement Reserves

The funds are available to offset future cost increases in the federal social housing portfolio due to inflation and changes in interest rates, or losses on loans owing by third parties. The funds are restricted under the Social Housing Agreement (SHA) and may only be used for housing within the SHA portfolio.

| | 2014 (\$000's) | 2013 (\$000's) |
|----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 9,099 | \$ 16,341 |
| Funds applied | (3,160) | (7,320) |
| Investment income | 1,529 | 78 |
| Balance, end of year | \$ 7,468 | \$ 9,099 |

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British Columbia Housing Management Commission

Notes to the Financial Statements

March 31, 2014

11. Tangible Capital Assets

| | Cost | Accumulated depreciation | 2014 (\$000's) Net book value | 2013 (\$000's) Net book value |
|---------------------|-----------|--------------------------|-------------------------------------|-------------------------------------|
| Computer software | \$ 38,608 | \$ 29,492 | \$ 9,116 | \$ 9,711 |
| Computer hardware | 4,353 | 4,091 | 262 | 68 |
| Tenant improvements | 9,598 | 8,994 | 604 | 961 |
| Office furniture | 3,072 | 2,905 | 167 | 304 |
| Office equipment | 639 | 624 | 15 | 20 |
| Vehicles | 1,052 | 876 | 176 | 224 |
| Grounds equipment | 496 | 448 | 48 | 104 |
| | \$ 57,818 | \$ 47,430 | \$ 10,388 | \$ 11,392 |

12. Budget figures

Budgeted figures are provided for comparative purposes are consistent with the 2013/14 Service Plan budgeted figures that were released in early 2013.

13. Grants in Lieu of Property Taxes

The Commission, on behalf of the Province and CMHC, pays each municipality a grant equivalent to gross property taxes due for all residential properties and projects managed.

14. Commitments

a) Rental Obligations

The Commission has minimum rental obligations under operating leases for office space over the next five fiscal years as follows:

| | (\$000's) |
|------|-----------|
| 2015 | \$ 4,606 |
| 2016 | 4,436 |
| 2017 | 4,525 |
| 2018 | 2,025 |
| 2019 | 706 |

b) Contractual Obligations

The Commission has significant contractual obligations with not for profit housing societies for the provision of annual subsidies. The current annual subsidy is \$330,446,000 with a forecasted amount \$233,317,000 in 5 years. These contracts are reviewed annually to evaluate the level of commitment.

British Columbia Housing Management Commission

Notes to the Financial Statements

March 31, 2014

c) Public-Private Partnership Commitments

The Commission has entered into a public-private partnership project (P3) with Habitat Housing Initiative (HHI) to renovate thirteen Single Room Occupancy Hotels in Vancouver's Downtown Eastside. The information provided below shows the anticipated cash outflow, net of federal contributions provide during construction, for future obligations under the contract with HHI for the capital cost and financing, the facility maintenance and lifecycle costs as defined in the Project Agreement. Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

As construction progresses, the asset values are recorded as capital assets and the obligation is recorded as a liability and included in long-term debt in the Provincial Rental Housing Corporation (see Note 15). Upon construction completion, the obligation will be met through the capital component of the monthly service payments over the term of the Project Agreement that is provided by the Commission.

| | | Capital (\$000's) | Facility Maintenance and Lifecycle (\$000's) | | Total Payments (\$000's) |
|------------|----|----------------------|--|----|-----------------------------|
| 2015 | \$ | 2,070 | \$ 474 | \$ | 2,544 |
| 2016 | | 6,280 | 1,219 | | 7,499 |
| 2017 | | 9,389 | 1,941 | | 11,330 |
| 2018 | | 9,388 | 2,183 | | 11,571 |
| 2019 | | 9,388 | 3,167 | | 12,555 |
| Thereafter | | 111,097 | 36,060 | | 147,157 |
| Total | \$ | 147,612 | \$ 45,044 | \$ | 192,656 |

d) Loan Insurance Agreement

CMHC provides loan insurance under the National Housing Act, to assist the Commission in securing mortgages for PRHC and not for profit housing providers. In the event of a loan default, the Commission is required to rectify the default and fully reimburse CMHC for claims paid to approved lenders. Since the establishment of this agreement in January 1993, there has never been a claim made under this agreement. The Commission underwrites these mortgages in accordance with CMHC guidelines for multi-unit properties, places charges on title to ensure access to property and requires housing providers to have an operating agreement with the Commission ensuring ongoing access to financial information.

The maximum value of mortgages that can be insured under this agreement is \$2.5 billion. As of March 31, 2014, the total value of outstanding CMHC insured mortgages was \$1,563,018,482 (2013: \$1,547,808,122). There is no claim expected on this portfolio and the Corporation has not recorded a provision for loss.

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Notes to the Financial Statements

March 31, 2014

15. Related Party Transactions

In the normal course of operations, the Commission periodically invoices the provincial government and federal/provincial crown agencies under various funding arrangements or agreements for social housing programs. Funds are due on receipt of the invoice and bear no interest.

These statements do not include the capital cost of projects owned by PRHC. Separate financial statements are prepared for PRHC which is a Crown corporation managed by the Commission.

16. Contingencies

Letters of Guarantee

As at March 31, 2014, the Commission was contingently liable with respect to letters of guarantee totalling \$708,212 for municipal development cost charges.

Legal Claims

The nature of the Commission's activities is such that there will be litigation pending or in progress at any time. With respect to claims at March 31, 2014, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Commission's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

17. Financial Instrument Risks

The Commission, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at March 31, 2014.

a) Credit Risk

Credit risk is the risk that the Commission will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Commission to credit risk consist primarily of cash and short term investments, accounts receivable, mortgage receivables and construction loans. The Commission has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Commission has also retained two qualified investment firms to invest surplus funds in accordance with its investment policy. The majority of receivables are due from federal and provincial agencies. Mortgage receivables are secured by property and are generally held for short periods (Note 5). Construction loans are also secured by property and repaid at substantial completion of project (Note 4).

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Construction loans bear interest at the

British Columbia Housing Management Commission

Province's weighted average borrowing rate, but these loans are short term. Investments bear some interest rate risk but these risks are mitigated through the diversification of the portfolio.

Notes to the Financial Statements

March 31, 2014

c) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market.

d) Liquidity Risk

Liquidity risk is the risk that the Commission will not be able to meet its obligations as they fall due. The Commission maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

18. Capital Disclosures

The Commission considers its capital to be its accumulated surplus. Its accumulated surplus consist of amounts invested in tangible capital assets, prepaid expenses and housing subsidies, and net debt (Note 11). The Commission's objectives when managing its capital are to safeguard its ability to continue as a going concern so it can continue to provide services. Annual budgets are developed and monitored to ensure the Commission's capital is maintained at an appropriate level.

As a Crown corporation, the Commission cannot incur an annual or cumulative deficit without the prior approval of the Minister of Energy and Mines (Minister Responsible for Housing).

19. Comparative Amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.