Provincial Rental Housing Corporation
Financial Statements
March 31, 2014

Contents

Statement of Management Responsibility

The financial statements of the Provincial Rental Housing Corporation (the Corporation) are the responsibility of management and have been prepared in accordance with 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 and approved by the Board of Directors.

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 Board of Directors.

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 Corporation's financial position, results of operations, changes in net assets 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 Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Directors reviews internal financial statements quarterly and external audited financial statements annually. The external auditor has full and open access to financial management of the Corporation and meets when required.

Shayne Ramsay
President

Dan Maxwell
Chief Financial Officer

May 21, 2014

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Independent Auditor's Report

To the Shareholder of
Provincial Rental Housing Corporation

We have audited the accompanying financial statements of the Provincial Rental Housing Corporation, which comprise the Statement of Financial Position as at March 31, 2014 and the Statements of Operations, Change in Net Debt 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 of these financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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 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 overall 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 are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describe the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 13 to the financial statements discloses the impact of these differences.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
May 21, 2014

Provincial Rental Housing Corporation

Statement of Financial Position

	March 31 2014 ($000's)	March 31 2013 ($000's)
Financial assets		
Cash	$ **1**	$ 1
Debenture subsidy receivable	**866**	878
Due from BC Housing Management Commission (Note 3)	**26,763**	47,976
Long Term Receivable (Note 5)	**258,976**	-
Loan receivables (Note 4)	**6,143**	10,489
Due from Federal Government (Note 10)	**9,444**	3,263
	302,193	62,607
Liabilities		
Interest payable	**446**	470
Property sale deposit (Note 5)	**-**	30,000
Deferred contributions (Note 6)	**586,169**	588,328
Unearned lease revenue	**79,679**	81,730
Long-term debt (Note 8)	**210,943**	212,685
	877,237	913,213
Net debt	**(575,044)**	(850,606)
Non-financial assets		
Tangible capital assets (Note 9)	**1,139,436**	1,119,651
Accumulated surplus	**$ 564,392**	$ 269,045

Commitments (note 10)

On behalf of the Board:

____________________ Director ____________________ Director

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Operations

Year Ended March 31	2014 ($000's)	2013 ($000's)
Revenue		
Directly managed debenture subsidy	$ 8,740	$ 13,161
Contribution revenue	38,264	39,749
Group home mortgage subsidy	8,921	9,053
Gain on sale of property (note 5)	291,074	-
Lease revenue	2,126	2,126
Other income	4,068	-
	353,193	64,089
Expenses		
Depreciation	37,696	36,780
Interest on long-term debt	8,462	10,550
Social housing grant and subsidy	9,733	5,172
Group home and self insurance claims	1,955	2,244
Loss on sale of property	-	1,267
	57,846	56,013
Annual surplus from operations	295,347	8,076
Accumulated surplus from operations, beginning of year	269,045	260,969
Accumulated surplus from operations, end of year	$ 564,392	$ 269,045

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Change in Net Debt

Year Ended March 31		2014 ($000's)		2013 ($000's)
Annual surplus	$	295,347	$	8,076
Acquisition of tangible capital assets		(62,177)		(84,976)
Depreciation of tangible capital assets		37,696		36,780
Disposal of tangible capital assets		4,696		24,581
		(19,785)		(23,615)
Changes in net debt for the year		275,562		(15,539)
Net debt, beginning of year		(850,606)		(835,067)
Net debt, end of year	$	(575,044)	$	(850,606)

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

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	$	295,347	$	8,076
Adjustments to determine cash flows:				
Depreciation		37,696		36,780
Amortization of deferred contributions		(38,264)		(39,749)
Gain on sale of property		(291,074)		-
Amortization of unearned lease revenue		(2,051)		(2,051)
Change in non-cash working capital		(1,847)		(8,774)
		(193)		(5,718)
Capital transactions				
Property acquisitions		(62,177)		(71,925)
Proceeds on sale of property		295,770		24,581
		233,593		(47,344)
Financing transactions				
Deferred contributions		36,105		63,929
New long term debt financing		36,339		7,343
Due from BC Housing Management Commission		21,213		10,825
Property sale deposit		(30,000)		10,000
Long-term debt repayment		(38,081)		(39,010)
Long-term Receivable		(258,976)		-
Funding in advance of construction		-		(25)
		(233,400)		53,062
Increase in cash		-		-
Cash, beginning of the year		1		1
Cash, end of year	$	1	$	1

See accompanying notes to the financial statements

1. General

The Provincial Rental Housing Corporation was incorporated under the Company Act of the Province of British Columbia in 1961. The Corporation is wholly owned by the Province, and is an agent of the Crown. The Corporation is exempt from federal and provincial income taxes.

The Corporation holds property for social and other low cost housing for the Province. It also holds land under long-term leases to housing sponsors. The subsidized rental housing units of the Corporation are managed and operated by the British Columbia Housing Management Commission (the "Commission"), which is a Crown agency that records the related rental revenue and is responsible for all of the operating and administrative activities and related costs. Separate financial statements are prepared for the Commission.

2. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with section 23.1 of the Budget Transparency and Accountability Act of the Provincial of British Columbia. This section requires that the financial statements be prepared in accordance with Canadian Public Sector Accounting Standards except in regard to the accounting for government transfers as set out in Note 13. The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is responsible for establishing Canadian public sector accounting standards.

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. The service life of buildings requires the greatest degree of estimation. Actual results could differ from those estimates.

Tangible Capital Assets

a) The Corporation capitalizes its tangible capital assets at cost and depreciates its buildings on the straight-line method as follows:

   Newly constructed buildings are depreciated on a 40 year amortization period. Purchases of older buildings are depreciated over the remaining estimated useful life of the building. Betterments to buildings are depreciated over the extended remaining life of the building. Construction in progress is not subject to depreciation until the project is complete and transferred to buildings.

b) For some social housing projects and group homes, the Province provides grants to the Corporation for a portion of the construction costs.

   From time to time, the Corporation disposes of property purchased for social housing projects that cannot proceed due to various circumstances. The proceeds from these sales are applied against the cost of purchasing alternate sites as appropriate. Any surplus or deficiency resulting from those sales is credited or charged to revenue.

c) Capitalization of public-private partnership projects

Public-private partnership (P3) projects are delivered by private sector partners selected to design, build, finance and maintain the assets. The costs of the assets are estimated at fair value, based on construction progress verified by an independent certifier, and also include other costs incurred directly by the Corporation. The asset cost includes development and financing fees estimated at fair value, which require the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received during the construction term. The interest rate used is the project internal rate of return. Upon completion, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation net of the contributions received is recorded as a liability and included in long-term debt.

Upon substantial completion, the private sector partner receives monthly payments to cover the partners' operating costs, financing costs and a return of their capital.

Property Leases

The Corporation leases property used for housing projects to housing sponsors. These sixty-year leases are prepaid by the housing sponsors when the housing projects are completed and ready for occupancy. The Corporation amortizes the lease revenue over the term of each lease and records the unearned portion as unearned lease revenue.

Deferred Contributions

Funding received from the Province used for acquisition of depreciable capital assets is recorded as deferred contributions and is recognized as a recovery in the statement of operations equal to depreciation charged on related depreciable capital assets. The requirements of Canadian public sector accounting standards require that government transfers be recognized when approved and eligibility criteria have been met unless the transfer contains a stipulation that creates a liability in which case the transfer is recognized over the period that the liability is extinguished (Note 13).

Funding received from the Province for acquisition of non-depreciable capital assets, such as land, is allocated to net assets invested in properties when the related assets are acquired.

Government Capital Grants

Consistent with the Province of British Columbia, Ministry of Finance regulation 198/2011 capital grants are recorded as a liability (deferred capital contribution) which is amortized to income over the life of the capital asset being funded.

Financial Instruments

The Corporation's financial instruments consist of debenture subsidy receivable, due from BC Housing Management Commission, cash, long-term receivables, loan receivables, due from federal government, long-term debt, interest payable and property sale deposit. All financial instruments are recorded at cost or amortized cost basis using the effective interest rate method where appropriate.

3. Due from British Columbia Housing Management Commission

Amounts represent funds advanced for the acquisition and development of properties under social housing programs. The amounts are non-interest bearing with no set terms of repayment.

4. Loan Receivables

PRHC has transferred a number of Rural and Native Housing projects to various Aboriginal Housing Providers over the last two years. These properties were originally transferred to PRHC as part of the devolution of federal housing in 2006 with the intention that they would eventually be transferred to aboriginal management and ownership. Repayable loans are associated with each property, with a total value of $6,143,362 (2013 - $10,487,757). Each loan has different repayment dates with interest rates ranging between 3 % to 6 %. The final loan is to be repaid in fiscal 2018/19.

5. Long Term Receivable

The Corporation completed the sale of Little Mountain property on July 2nd 2013 for the proceeds of $333.96 million. The terms of the sale required the purchaser to pay deposits of $40 million which were received by the Corporation. As well, the purchaser is required to provide the Corporation with 234 non-market housing units and to pay the balance of the purchase price based on the proportion of the site developed in phases over time. The Corporation has recorded a long term receivable of $258.976 million for the unpaid purchase price. This receivable is equal to the net present value of the expected future payments and the fair value of the 234 social housing units, discounted at 3.25%.

6. Deferred Contributions

		2014 ($000's)		2013 ($000's)
Balance, beginning of year	$	**588,328**	$	560,885
Receipts		**32,146**		58,968
Amortization		**(34,305)**		(31,525)
Balance, end of year	$	**586,169**	$	588,328

Deferred contributions are capital grants from the Commission. The grants are for the purchase and/or development of new social housing projects or the major rehabilitation of buildings owned by the Corporation (Notes 2 and 13).

7. Related Party Transactions

a) Insurance

The Corporation does not insure most of its rental housing properties. Instead property losses are compensated by the Province through the Commission and, for certain properties, by CMHC.

b) Directly Managed Debenture Subsidy

Directly managed debenture subsidy represents funds received from the Commission for the principal and interest costs of the long-term debt related to directly managed properties.

c) Group Home Mortgage Subsidy

Group home mortgage subsidy represents the funds received from the Commission for mortgage payments to chartered banks and CMHC.

d) Administration and Financing

The Commission acts as agent in administering and financing the operations and capital projects of the Corporation. No administration costs are charged to the Corporation for such services performed.

8. Long-Term Debt

	2014 ($000's)	2013 ($000's)
Canada Mortgage & Housing Corporation (CMHC) Debenture mortgages repayable at the end of each year, maturing between the years 2024 and 2027, bearing interest at rates from 4.35% to 14.25%, and secured by unregistered first mortgages on properties of the Corporation	**$ 61,358**	$ 65,419
Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, bearing interest up to 10%, and secured by registered first mortgages on properties of the Corporation	**103,990**	134,215
Public-private partnership obligations SRO Renewal Initiative, 18 year contract to January 2031 with Habitat Housing Initiative, monthly payments including interest at 6.61% per annum, payable in accordance with the project agreement terms commencing July 2014 to a maximum of $782,370	**45,595**	13,051
	$ 210,943	$ 212,685

The aggregate principal repayments required in each of the next five fiscal years are estimated to be as follows:

		($000's)
2015	$	**50,206**
2016		**15,930**
2017		**17,990**
2018		**22,090**
2019		**18,735**
Thereafter		**85,992**
	$	**210,943**

9. Tangible Capital Assets

		Cost		Accumulated depreciation		**2014 ($000's) Net book value**		2013 ($000's) Net book value
Land	$	443,455	$	-	$	**443,455**	$	443,754
Buildings		876,333		247,071		**629,262**		599,334
Construction in progress		66,719		-		**66,719**		76,563
	$	1,386,507	$	247,071	$	**1,139,436**	$	1,119,651

Construction in progress includes $ 54.63 million (2013 - $18.91 million) under the SRO Renewal Initiative project. Costs are based upon the percentage of construction completed as verified by an independent party, and includes other costs incurred by the Corporation. Included in the asset costs of the SRO Renewal Initiative are development and financing fees estimated at fair value. Interest during construction is also included in the asset cost. The interest rate used is the project internal rate of return of 6.61 percent (2013- 6.64 percent). The amount of interest capitalized is $1,884,503 (2013 - $104,804). Upon completion, the project assets are amortized over their estimated useful lives.

10. Commitments

The Corporation has entered into a public-private partnership project 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 (see 10(b)) provided during construction, for future obligations under the contract including the Commissions' annual service payments to 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 (see note 9) and the obligation is recorded as a liability and included in long-term debt (see note 8). 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 Corporation.

a)

		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**

b) Federal Contributions

Year Ended March 31		**Annual Total ($000's)**
2015	$	**18,939**
2016		**10,165**
Total	$	**29,104**

Federal contributions (P3 Canada) are due to the Corporation at the completion of each building.

11. Financial Instrument Risks

The Corporation, 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 Corporation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of the funds due from the Commission (Note 3) and the long-term receivable (note 5).

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. The Corporation is subject to interest rate risk on its long term debt portfolio. The Corporation mitigates this risk by maximizing its borrowing from CMHC and seeking competitive interest rates from financial institutions. The Corporation is also able to mitigate short term interest rate changes through the Commission's ability to borrow directly from the Provincial Treasury.

c) Liquidity Risk

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

12. Budget

The Corporation does not establish an annual operating budget as the information does not assist the directors in monitoring or evaluating changes in revenues or expenditures. The Corporation operates as a land holding company and does not employ staff. The Corporation's revenues and expenditures are largely fixed in nature. The Commission actively administers the provincial social housing programs and records the revenues and expenditures incurred from the operation of the Corporation's buildings. The Commission is also responsible for initiating decisions around purchases, new developments and the rehabilitation or modernization of the Corporation's properties.

13. Impact of Accounting for Government Transfers in Accordance with the Budget Transparency and Accounting Act

As noted in the significant accounting policies, section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and its related regulations require the Corporation to account for government transfers for capital assets by deferring and amortizing them to income on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported in income immediately. If government transfers were accounted for under Canadian public sector accounting standards the impact of this difference on the financial statements of the Corporation is as follows:

a) For the year-ended March 31, 2013, an increase to annual surplus of $37,059,000;

b) for March 31, 2013, an increase to accumulated surplus and a decrease to contributions of $461,028,000;

c) for the year-ended March 31, 2014, an increase to annual surplus of $5,041,000; and

d) for March 31, 2014, an increase to accumulated surplus and a decrease to contributions of $466,069,000.