

Provincial Rental Housing Corporation
Financial Statements
March 31, 2017

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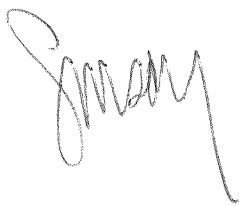
Statement of Management Responsibility

The financial statements of the Provincial Rental Housing Corporation (the Corporation) are the responsibility of management and have been prepared in accordance with section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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 24, 2017. 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 managements of Corporation and meets when required..



Shayne Ramsay
President



Dan Maxwell
Chief Financial Officer

May 24 , 2017



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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, 2017, and the Statements of Operations, Change in Net Financial Assets, 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 overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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, 2017 and the results of its operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 24, 2017



Provincial Rental Housing Corporation

Statement of Financial Position

	March 31 2017 (\$000's)	March 31 2016 (\$000's)
Financial assets		
Cash	\$ 1	\$ 1
Debenture subsidy receivable	839	840
Due from BC Housing Management Commission (Note 3)	236,397	94,775
Long-term receivables (Note 5)	293,207	249,663
Loan receivables (Note 4)	632	1,604
Due from Federal Government	-	10,854
	<u>531,076</u>	<u>357,737</u>
Liabilities		
Interest payable	366	394
Deferred contributions (Note 6)	578,696	601,526
Unearned lease revenue	37,631	40,679
Site contamination (Note 7)	7,067	7,342
Long-term debt (Note 9)	240,963	248,679
	<u>864,723</u>	<u>898,620</u>
Net debt	<u>(333,647)</u>	<u>(540,883)</u>
Non-financial assets (Note 10)		
Housing and projects under construction	1,278,097	1,195,883
Riverview lands redevelopment	12,593	6,084
	<u>1,290,690</u>	<u>1,201,967</u>
Accumulated surplus	<u>\$ 957,043</u>	<u>\$ 661,084</u>

Commitments (Note 11)

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	2017 (\$000's)	2016 (\$000's)
Revenue		
Provincial subsidy	\$ 28,192	\$ 22,047
Contribution revenue	58,661	38,561
Gain on sale of property	269,516	22,042
Lease revenue	3,123	25,564
Interest income	-	5,680
	<u>359,492</u>	<u>113,894</u>
Expenses		
Depreciation	47,627	42,628
Interest on long-term debt	10,952	7,201
Social housing grant and subsidy	3,110	1,784
Group home and self insurance claims	1,844	534
	<u>63,533</u>	<u>52,147</u>
Annual surplus from operations	<u>295,959</u>	<u>61,747</u>
Accumulated surplus from operations at beginning of year	<u>661,084</u>	<u>599,337</u>
Accumulated surplus from operations at end of year	<u>\$ 957,043</u>	<u>\$ 661,084</u>

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Change in Net Debt

Year Ended March 31	2017 (\$000's)	2016 (\$000's)
Annual surplus	\$ 295,959	\$ 61,747
Acquisition of tangible capital assets	(171,642)	(121,018)
Depreciation of tangible capital assets	47,627	42,628
Disposal of tangible capital assets	41,801	56,538
	<u>(82,214)</u>	<u>(21,852)</u>
Riverview lands redevelopment	<u>(6,509)</u>	<u>(1,601)</u>
Changes in net debt for the year	207,236	38,294
Net debt, beginning of year	<u>(540,883)</u>	<u>(579,177)</u>
Net debt, end of year	<u>\$ (333,647)</u>	<u>\$ (540,883)</u>

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Cash Flows

Year Ended March 31	2017 (\$000's)	2016 (\$000's)
Cash flows provided by (used in)		
Operating transactions		
Annual surplus from operations	\$ 295,959	\$ 61,747
Adjustments to determine cash flows:		
Depreciation	47,627	42,628
Amortization of deferred contributions	(52,157)	(39,670)
Gain on sale of property	(269,516)	(22,042)
Amortization of unearned lease revenue	(3,048)	(25,489)
Change in non-cash working capital	11,799	(3,983)
	<u>30,664</u>	<u>13,191</u>
Capital transactions		
Property acquisitions	(171,642)	(121,018)
Proceeds on sale of property	311,317	78,580
Riverview lands redevelopment	(6,509)	(1,601)
	<u>133,166</u>	<u>(44,039)</u>
Financing transactions		
Deferred contributions	29,327	37,750
New long-term debt financing	33,010	40,621
Site contamination	(275)	(78)
Due from BC Housing Management Commission	(141,622)	(25,263)
Long-term debt repayment	(40,726)	(17,121)
Long-term receivable	(43,544)	(5,061)
	<u>(163,830)</u>	<u>30,848</u>
Increase in cash	-	-
Cash, beginning of the year	<u>1</u>	<u>1</u>
Cash, end of year	\$ <u>1</u>	\$ <u>1</u>

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

1. General

The Provincial Rental Housing Corporation (the "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 Province 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 14. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada 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. Site remediation liability is based on a third party valuation while the Riverview redevelopment is an estimate based on transfer value and total capitalized costs. 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 forty 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.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

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.

d) Riverview Lands Re-development

All costs associated with the redevelopment are capitalized, including carrying costs, construction, net operating income or losses, financing and demolition. Costs will be capitalized until the completion of the redevelopment. The net amount recoverable from the redevelopment is considered sufficient to recover the capitalized costs.

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.

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 (see Note 14).

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.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

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, and interest payable. 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

The Corporation 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 the Corporation 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 \$631,515 (2016: \$1,603,721). Each loan has different repayment dates with interest rates ranging from 3% to 6%. The final loan is to be repaid in fiscal 2018/19.

5. Long-term Receivables

Long-term receivables are comprised of receivables from the sale of two properties as follows:

		(\$000's)
Little Mountain:		
March 31, 2016 Balance	\$	249,663
Principle Adjustment		(10,129)
Interest Adjustment		(145)
		<u>239,389</u>
Cedar Place		53,818
March 31, 2017 Balance	\$	<u>293,207</u>

a) Little Mountain

The Corporation completed the sale of Little Mountain property on July 2, 2013, for proceeds of \$333.96 million. 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 current receivable is adjusted based on the updated cash flow forecast and it is equal to the net present value of the remaining expected future payments and the fair value of the 181 social housing units not constructed, discounted at 2.5% (2015/16: 3.25%).

b) Cedar Place

The sale of the Cedar Place property was completed on March 22, 2017 for proceeds of \$53.818 million. The purchaser is required to provide the Corporation with a total of 181 non-market housing units. This includes land and building for 90 family units and 91 units of senior housing constructed on land owned by PRHC.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

6. Deferred Contributions

		2017 (\$000's)		2016 (\$000's)
Balance, beginning of year	\$	601,526	\$	603,446
Receipts		29,327		37,750
Amortization		(52,157)		(39,670)
Balance, end of year	\$	578,696	\$	601,526

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 (see Note 2).

7. Site Contamination

MTICS and the Ministry of Health transferred \$7.4 million to the Corporation for remediation of contaminated sites at the Riverview Lands project site. This exceeds the current best estimate of the present value of remediation costs required of \$5.5 million. However, the full \$7.4 million is recorded as a liability because any portion of the amount transferred that proves to exceed the actual amount required will be repayable by the Corporation to MTICS. The Corporation will review the contamination and cost of remediation over the life of the projects and will adjust the liability as information becomes available.

8. 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.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

9. Long-Term Debt

	2017 (\$000's)	2016 (\$000's)
Canada Mortgage and Housing Corporation (CMHC) Debenture mortgages repayable at the end of each year, maturing between the years 2024 and 2027, with a weighted average rate of 7.76% (2016: 7.97%) and secured by unregistered first mortgages on properties of the Corporation.	\$ 47,868	\$ 52,659
Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, with a weighted average rate of 2.51% (2016: 2.63%), secured by registered first mortgages on properties of the Corporation.	109,618	102,935
Public-Private Partnership Obligations SRO Renewal Initiative, 18 year contract until January 2031 with Habitat Housing Initiative, monthly payments including interest at 6.73% per annum, payable in accordance with the project agreement terms commencing July 2014 to a maximum of \$788,377. As of March 31, 2017, the total amount paid since inception was \$16,003,469.	83,477	93,085
	\$ 240,963	\$ 248,679

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

	(\$000's)
2018	\$ 33,016
2019	26,869
2020	25,887
2021	29,204
2022	21,588
Thereafter	104,399
	\$ 240,963

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

10. Non-Financial Assets

a) Housing and property under construction

Cost	2016 (\$000's)			2017 (\$000's)
	Beginning	Additions	Disposals	Ending
Land	\$ 404,090	\$ 34,474	\$ (22,017)	\$ 416,547
Buildings	1,028,866	192,263	(42,036)	1,179,093
Construction in progress	89,643	(55,095)		34,548
	\$ 1,522,599	\$ 171,642	\$ (64,053)	\$ 1,630,188

Depreciation	Beginning Accumulated	Annual Expense	Disposals Adjustments	Ending Accumulated
Buildings	\$ 326,716	\$ 47,627	\$ (22,252)	\$ 352,091

Net Book Value	Beginning	Ending
Land	\$ 404,090	\$ 416,547
Buildings	702,150	827,002
Construction in progress	89,643	34,548
	\$ 1,195,883	\$ 1,278,097

b) Riverview Lands Redevelopment

On February 2, 2015, ownership of the Riverview Lands was transferred to the Corporation from the Ministry of Technology, Innovation and Citizen's Service (MTICS). The land is to be redeveloped over the next several years. All costs associated with the redevelopment will be capitalized, including financing, demolition, land planning and the net operating costs associated with the ongoing operations at the site. Costs related to the development are to be funded through the proceeds obtained from the redevelopment, including lease and film revenues. The land and buildings were transferred to the Corporation at book value.

	(\$000's)			(\$000's)
	2016			2017
	Beginning	Expenses	Revenue	Ending
Construction	\$ 5,091	5,369	-	\$ 10,460
Net operating	993	5,797	(4,657)	2,133
	\$ 6,084	\$ 11,166	\$ (4,657)	\$ 12,593

As part of its ongoing consultations with the Kwikwetlem First Nation (KFN) respecting the future use and redevelopment of the Riverview Lands, BC Housing entered into an Interim Accommodation Agreement with the KFN dated April 13, 2016, to facilitate the development of two new provincial health facilities that replace existing structures. PRHC, BC Housing and the KFN continue to work together to conclude a final impact benefits agreement in relation to the Riverview Lands.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

11. 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 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 10) and the obligation is recorded as a liability and included in long-term debt (see Note 9). 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 paid directly by the Commission.

a) Annual Service Payments

	Capital (\$000's)	Facility Maintenance and Lifecycle (\$000's)	Total Payments (\$000's)
2018	9,461	2,051	11,512
2019	9,461	2,731	12,192
2020	9,461	2,444	11,905
2021	9,461	2,735	12,196
2022	9,461	2,228	11,689
Thereafter	83,566	19,240	102,806
Total	\$ 130,871	\$ 31,429	\$ 162,300

12. 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 as at March 31, 2017.

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), loan receivables (see Note 4) and long-term receivables (see 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 when refinancing 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 and long term interest rate changes through the Commission's ability to borrow directly from the Provincial Treasury.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2017

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.

13. 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.

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

As noted in the significant accounting policies (see Note 2), 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, 2016, an increase to annual surplus of \$310,000; and,
- b) For March 31, 2016, an increase to accumulated surplus and a decrease to contributions of \$499,513,000.
- c) For the year-ended March 31, 2017, an increase to annual surplus of \$2,646,000; and,
- d) For March 31, 2017, an increase to accumulated surplus and a decrease to contributions of \$502,159,000.