

Financial Statements

British Columbia Housing Management Commission
Financial Statements March 31, 2011



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 generally accepted accounting principles, 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, 2011. 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 generally accepted accounting principles. 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 comprised of a director who is not an employee, 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 Commissions. 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.



Dan Maxwell

*Vice President of Corporate Services
and Chief Financial Officer*



Craig Crawford

Vice President of Operations

May 24, 2011



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Independent Auditor's Report

To the Board 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, 2011 and the Statements of Operations 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 generally accepted accounting principles, 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 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, British Columbia
May 24, 2011

Statement of Financial Position

British Columbia Housing Management Commission

As at March 31	2011 (\$000's)	2010 (\$000's)
ASSETS		
Current		
Cash	\$ 426	\$ 5,604
Short term investments	97,822	88,522
Receivables	22,621	16,096
Prepaid expenses and housing subsidies	23,294	22,826
Due from Province of British Columbia	266	13,138
Due from Canada Mortgage and Housing Corporation	11,748	13,702
Construction loans to housing projects (Note 3)	202,337	135,489
Current portion of mortgages receivable (Note 4)	432	1,397
	358,946	296,774
Mortgages receivable (Note 4)	211	211
Proposal development advances (Note 5)	3	156
Capital assets (Note 6)	11,203	14,484
	\$ 370,363	\$ 311,625
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 41,326	\$ 36,423
Deferred revenue (Note 7)	119,891	135,573
Due to Provincial Rental Housing Corporation (Note 8)	34,383	14,177
Tenants' prepaid rent	1,108	919
Due to Provincial Treasury	110,475	53,026
Society funds held on deposit (Note 9)	24,199	20,784
Grants received in advance of construction (Note 10)	9,901	27,113
	341,283	288,015
Social Housing Agreement Reserves (Note 11)	24,363	22,111
	365,646	310,126
Net assets (Note 12)	4,717	1,499
	\$ 370,363	\$ 311,625

Commitments (Note 14) • Contingencies (Note 16)

On behalf of the Board

 Chair

See accompanying notes to the financial statements

Statement of Operations

British Columbia Housing Management Commission

Year Ended March 31	2011 (\$000's)	2010 (\$000's)
REVENUE		
Provincial contributions	\$ 481,472	\$ 390,738
Federal contributions	223,423	165,245
Tenant rent	36,734	36,938
Other	15,457	9,822
Unrealized investment gains and interest	6,977	12,517
	764,063	615,260
EXPENSES		
Housing subsidies	552,307	406,832
Rental Assistance	76,716	73,334
Salaries and labour	48,553	43,664
Operating expenses	25,624	25,675
Building maintenance	12,924	14,428
Building modernization and improvement	11,864	18,421
Office and overhead	10,076	7,240
Utilities	8,873	9,389
Building mortgage costs	8,718	8,856
Grants in lieu of property taxes (Note 13)	7,806	7,326
Interest expense	552	69
	764,013	615,234
Excess of revenue over expenses	50	26
Net assets, beginning of year	1,499	1,473
Add transfer of Homeowner Protection Office, net assets (note 19)	3,168	-
Net assets, end of year (Note 12)	\$ 4,717	\$ 1,499

See accompanying notes to the financial statements

Statement of Cash Flows

British Columbia Housing Management Commission

Year Ended March 31	2011 (\$000's)	2010 (\$000's)
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 50	\$ 26
Adjustments to determine cash flows:		
Depreciation	7,289	7,682
Unrealized investment gains (losses)	(6,977)	(12,098)
Change in non-cash working capital	(3,150)	92,864
	(2,788)	88,474
INVESTING ACTIVITIES		
Short term investments	(2,323)	(4,061)
Mortgages receivable	965	65,291
Proposal development advances	153	287
Construction loans provided to housing projects	(66,848)	(65,964)
Capital asset additions	(3,595)	(6,610)
Transfer of Homeowner Protection cash	3,148	-
	(68,500)	(11,057)
FINANCING ACTIVITIES		
Advances from Provincial Rental Housing Corporation	20,206	2,369
Due to Provincial Treasury	57,449	(22,175)
Society funds held on deposit	3,415	(2,946)
Grants received in advance of construction	(17,212)	(57,112)
Social Housing Agreement Reserves	2,252	3,954
	66,110	(75,910)
Increase (decrease) in cash	(5,178)	1,507
Cash, beginning of year	5,604	4,097
Cash, end of year	\$ 426	\$ 5,604
Supplemental cash flow information		
Interest received	\$ 187	\$ 772
Interest paid	\$ 468	\$ 197

See accompanying notes to the financial statements

Notes to the Financial Statements

British Columbia Housing Management Commission
March 31, 2011

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 (see note 20); 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 Canadian generally accepted accounting principles for not-for-profit organizations.

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.

Capital Assets

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 about 55,000 active plan members and approximately 33,000 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, 2008, indicated an actuarial surplus of \$487 million for basic pension benefits. The next valuation will be as at March 31, 2011 with results available in early 2012. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. The Commission paid \$3,379,869 for employer contributions to the Plan in fiscal 2011 (2010: \$3,058,652).

Financial Instruments

The Commission's financial instruments consist of cash, short-term investments, receivables, due from the Province of British Columbia, due from Canada Mortgage and Housing Corporation, mortgages receivable, construction loans to housing projects, proposal development advances, 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:

Notes to the Financial Statements *(continued)*

British Columbia Housing Management Commission
March 31, 2011

Held-for-trading The Commission has designated cash and short-term investments as held-for-trading. These instruments are initially and subsequently 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. Net gains and losses arising from changes in fair value are recognized immediately in income.

Loans and receivables and other financial liabilities Receivables, due from Province of British Columbia, due from Canada Mortgage and Housing Corporation, mortgages receivable, construction loans to housing projects and proposal development advances are classified as loans and receivables. Accounts payable and accrued liabilities, due to Provincial Rental Housing Corporation, due to Provincial Treasury and Society funds held on deposit are classified as other financial liabilities.

Loans and receivables and other financial liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. These instruments are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment.

Given the short-term nature of receivables, due from Province of British Columbia, due from Canada Mortgage and Housing Corporation, construction loans to housing projects, accounts payable and accrued liabilities, due to Provincial Rental Housing Corporation and due to Provincial Treasury, their carrying value equates their current fair value. The current fair value of mortgages receivable is set out in Note 4. The current fair value of proposal development advances is not determinable. The current fair value of Society funds held on deposit equates to its carrying value because it accrues interest at a variable current rate.

New Accounting Pronouncements

On September 7, 2010, Treasury Board issued a directive to all tax-payer supported Crown agencies to adopt Public Sector Accounting Standards, without not for profit provisions, for all fiscal years commencing after January 1, 2011. Management is currently assessing the impact to the financial statements.

3. 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. Societies are charged interest at the Province's weighted average borrowing rate for short-term funds, plus administration costs.

The Provincial Treasury provides funding to the Commission for the purpose of advancing loans for construction. These loans are secured and bear interest at the Province's weighted average borrowing rate for short-term funds. The Commission has the authority to borrow up to a maximum of \$165 million from the Provincial Treasury.

4. 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%. (fair value - \$432,000; 2010 - \$1,292,000)

5. PROPOSAL DEVELOPMENT ADVANCES

Loan advances are made to sponsoring societies for needs studies, incorporation and site development costs. These are secured non-interest bearing advances and are normally repaid upon project completion or remain outstanding for three years, at which time they are written-off. An allowance is established for the value of advances outstanding whenever there is uncertainty about projects proceeding to the final commitment stage. An allowance of \$1,174,500 was established for the current fiscal. An allowance was not considered necessary in the prior year.

6. CAPITAL ASSETS

	Cost	Accumulated depreciation	2011 (\$000's) Net book value	2010 (\$000's) Net book value
Computer software	\$ 26,769	\$ 19,908	\$ 6,861	\$ 6,882
Computer hardware	7,165	6,331	834	1,467
Tenant improvements	8,876	6,521	2,355	4,742
Office furniture	3,776	3,115	661	976
Office equipment	649	620	29	50
Vehicles	775	526	249	271
Grounds equipment	507	293	214	96
	\$ 48,517	\$ 37,314	\$ 11,203	\$ 14,484

7. DEFERRED REVENUE

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

	2010 (\$000's)	Contributions Received (\$000's)	Revenue Recognized (\$000's)	2011 (\$000's)
Provincial Contributions	\$ 34,310	\$ 468,704	\$ (468,083)	\$ 34,931
Canada Mortgage and Housing Corporation	101,263	207,120	(223,423)	84,960
	\$ 135,573	\$ 675,824	\$ (691,506)	\$ 119,891

The Social Housing Agreement Reserves (Note 11) represent further restricted contributions from Canada Mortgage and Housing Corporation of a long term nature.

8. 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.

9. 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.

Notes to the Financial Statements *(continued)*

British Columbia Housing Management Commission
March 31, 2011

10. 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.

	Balance, beginning of year (\$000's)	Grants received (\$000's)	Construction costs incurred (\$000's)	Balance, end of year (\$000's)
Project Grants	\$ 26,595	\$ 27,508	\$ (44,464)	\$ 9,639
Provincial Economic Stimulus Fund	-	130,344	(130,344)	-
CMHC – Economic Stimulus Fund	-	63,171	(63,171)	-
CMHC – AHI Extension	-	19,640	(19,640)	-
CMHC – Phase 1	116	-	(67)	49
Ministry – Other	402	-	(189)	213
	\$ 27,113	\$ 240,663	\$ (257,875)	\$ 9,901

11. 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 for only these purposes.

	2011 (\$000's)	2010 (\$000's)
Balance, beginning of year	\$ 22,111	\$ 18,157
Funds applied	(59)	(147)
Investment income	2,312	4,101
Balance, end of year	\$ 24,363	\$ 22,111

12. CHANGES IN NET ASSETS

	Invested in capital assets (\$000's)	Unrestricted (\$000's)	2011 (\$000's)	2010 (\$000's)
Balance, beginning of year	\$ 14,484	(12,985)	\$ 1,499	\$ 1,473
Excess of revenue (deficiency) over expenses for the year	(7,289)	7,339	50	26
Additions to capital assets	3,641	(3,641)	-	-
Transfer of Homeowner Protection Office, net assets	367	2,801	3,168	-
	\$ 11,203	(6,486)	\$ 4,717	\$ 1,499

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)
2012	\$ 4,298
2013	4,117
2014	3,996
2015	4,074
2016	3,902

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 \$283,489,000 with a forecasted amount \$323,400,000 in 5 years. These contracts are reviewed annually to evaluate the level of commitment.

c. 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 make best efforts to avoid a claim against CMHC including the provision of additional funds to rectify a default. 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 billion. As of March 31, 2011, the total value of outstanding CMHC insured mortgages was \$1,553,242,085 (2010: \$1,446,537,152). There is no claim expected on this portfolio and the Corporation has not recorded a provision for loss.

15. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Commission acquires goods and services from the Province and certain crown corporations, under prevailing trade terms.

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

16. CONTINGENCIES

Building Envelope Failure

In response to industry concerns and experience regarding building envelope failure, the Commission undertook a systematic review of non-profit and co-operative owned buildings and directly managed buildings under its administration. Buildings included in the study are part of the Federal/Provincial housing portfolio. The Commission received preliminary estimates for the cost of remediation for a number of projects.

Substantially all of the buildings have been examined. The costs, subject to confirmation through detailed engineering studies or actual repairs, are estimated at \$ 205.1 million. Repairs to non profit and co-operative owned buildings will be undertaken by housing sponsors in the future and the resulting expenditures, if accepted and approved, will be cost-shared with CMHC and the Province based on various program funding formulae. Requests for funding of the repairs will be included in annual budgets and reimbursed based on actual costs incurred.

Notes to the Financial Statements *(continued)*

British Columbia Housing Management Commission
March 31, 2011

Letters of Guarantee

As at March 31, 2011, the Commission was contingently liable with respect to letters of guarantee totalling \$1,893,448 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, 2011, 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, 2011.

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 4). Construction loans are also secured by property and repaid at substantial completion of project (Note 3).

b. Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Commission is not exposed to foreign exchange risk as all securities are denominated in Canadian dollars.

c. 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 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.

d. 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 (Note 2 – financial instruments).

e. 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 (Note 2 – financial instruments).

18. CAPITAL DISCLOSURES

The Commission considers its capital to be its net assets. Its restricted net assets consist of amounts invested in capital assets (Note 12). 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 Housing and Social Development.

19. RESPONSIBILITIES FOR THE HOMEOWNER PROTECTION OFFICE

Effective April, 1, 2010, the Homeowner Protection Office ceased to exist as a Crown corporation. The Province of British Columbia transferred to the Commission responsibility, under the *Homeowner Protection Act*, the licensing of residential builders, administrations of owner-builder authorizations, overseeing the third-party home warranty insurance system and carrying out research and education to improve the quality of construction of new homes. Responsibility for PST Relief Grant program was also transferred to Commission until this program was terminated on June 30, 2010.

The assets and liabilities transferred to the Commission were:

	(\$000's)
Cash	\$ 2,434
Cash for reconstruction loan and PST Relief Grant	714
Due from Province of British Columbia	31
Accounts receivable	250
Prepaid expenses	110
Property and equipment	367
Intangible assets	46
	\$ 3,952
Account payable and accrued liabilities	\$ 784
	\$ 784

The operating results for the year ended March 31, 2011 were:

Year Ended March 31	2011 (\$000's)
REVENUE	
Provincial contributions	\$ 5,580
Federal contributions	4,970
Other revenue	201
	10,751
EXPENSES	
PST relief grant	5,580
Salaries	1,800
Licencing, compliance and administration	1,651
Research	925
Communications	475
	10,431
Surplus	\$ 320

Notes to the Financial Statements *(continued)*

British Columbia Housing Management Commission
March 31, 2011

20. COMPARATIVE AMOUNTS

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

21. SUBSEQUENT EVENT

On May 4, 2011, a fire destroyed a new housing project in Richmond that is partially financed by the Commission. The developer has adequate insurance in place to cover the cost of the construction. The Commission provided financing of \$20.5 million towards the project and has also secured the financing with land.

Financial Statements

Provincial Rental Housing Corporation
Financial Statements March 31, 2011



Provincial Rental Housing Corporation

Financial Statements March 31, 2011

Statement of Management Responsibility

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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 generally accepted accounting principles. The Independent Auditor's Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, 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, comprised of a director who is not an employee, 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 Commissions. The Audit and Risk Management Committee also recommends the appointment of an external auditor to the Board of Directors. The external auditor has full and open access to the Audit and Risk Management Committee, with and without the presence of management.



Dan Maxwell
Chief Financial Officer



Craig Crawford
Vice President of Operations

May 24, 2011



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Independent Auditor's Report

To the Shareholder of
Provincial Rental Housing Corporation

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Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

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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 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 Provincial Rental Housing Corporation as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, British Columbia
May 24, 2011

Statement of Financial Position

Provincial Rental Housing Corporation

As at March 31	2011 (\$000's)	2010 (\$000's)
ASSETS		
Investment in properties (Note 3)	\$ 948,986	\$ 739,717
Debenture subsidy receivable	900	910
Due from BC Housing Management Commission (Note 4)	34,383	14,177
Cash	1	1
	\$ 984,270	\$ 754,805
LIABILITIES		
Long-term debt (Note 5)	\$ \$217,955	\$ 205,856
Interest payable	513	532
Unearned lease revenue	85,832	87,883
Funding in advance of construction (Note 6)	1,827	28,744
Deferred contributions (Note 7)	411,489	180,686
Property sale deposit (Note 9)	20,000	20,000
	737,616	523,701
Net assets	246,654	231,104
	\$ 984,270	\$ 754,805

On behalf of the Board

 Director

 Director

See accompanying notes to the financial statements

Statement of Operations

Provincial Rental Housing Corporation

Year Ended March 31	2011 (\$000's)	2010 (\$000's)
REVENUE		
Directly managed debenture subsidy	\$ 13,178	\$ 13,351
Contribution revenue	12,972	4,934
Group home mortgage subsidy	8,972	8,964
Gain on sale of property	2,772	1,438
Lease revenue	2,105	1,724
	39,999	30,411
EXPENSES		
Depreciation	14,017	9,664
Interest on long-term debt	11,619	12,224
Group home and self insurance claims	2,071	1,275
	27,707	23,163
Excess of revenue over expenses for the year	\$ 12,292	\$ 7,248

See accompanying notes to the financial statements

Statement of Changes in Net Assets

Provincial Rental Housing Corporation

Year Ended March 31	Invested in Properties (\$000's)	Group Home Replacement Reserves (000's)	Self Insurance Reserves (000's)	Unrestricted (000's)	2011 (000's)	2010 (000's)
Balance, beginning of year	\$ 265,292	\$ 6,061	\$ 10,937	\$ (51,186)	\$ 231,104	\$ 218,700
Excess of revenue over expenses for the year	(3,410)	-	(1,735)	17,437	12,292	7,248
Additional funding for year	-	(236)	4,314	(4,078)	-	-
Other funding received	(42,628)	-	-	42,628	-	-
Transfer for repayment of debt	11,198	-	-	(11,198)	-	-
Transfer from province for investment in properties	3,258	-	-	-	3,258	5,156
Balance, end of year	\$ 233,710	\$ 5,825	\$ 13,516	\$ (6,397)	\$ 246,654	\$ 231,104

See accompanying notes to the financial statements

Statement of Cash Flows

Provincial Rental Housing Corporation

Year Ended March 31	2011 (\$000's)	2010 (\$000's)
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 12,292	\$ 7,248
Adjustments to determine cash flows:		
Depreciation	14,017	9,664
Amortization of unearned lease revenue	(2,051)	(2,051)
Amortization of deferred contributions	(12,972)	(4,934)
Gain on sale of property	(2,772)	(1,438)
Change in non-cash working capital	(9)	(90)
	8,505	8,399
INVESTING ACTIVITIES		
Property acquisitions	(224,934)	(129,943)
Proceeds on sale of property	4,419	3,655
	(220,515)	(126,288)
FINANCING ACTIVITIES		
New financing	23,297	8,642
Long-term debt repayment	(11,197)	(13,343)
Funding in advance of construction	(26,917)	12,194
Deferred contributions	243,775	107,608
Property acquisition contribution receipts	3,258	5,157
Due to/from BC Housing Management Commission	(20,206)	(2,369)
	212,010	117,889
Increase (decrease) in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	\$ 1	\$ 1
Supplemental cash flow information		
Interest received	\$ 175	\$ 84
Interest paid	\$ 11,638	\$ 12,243

See accompanying notes to the financial statements

Notes to the Financial Statements

Provincial Rental Housing Corporation
March 31, 2011

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 Canadian generally accepted accounting principles for not-for-profit organizations.

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 require the greatest degree of estimation. Actual results could differ from those estimates.

Investment in Properties

The Corporation capitalizes its investment in properties at cost and depreciates its buildings on the straight-line method.

Effective April 1, 2010, depreciation on buildings and betterments was changed. 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. This is regarded as a change in accounting estimate as the previous amortization rate for new construction and building purchases was 25 years, and betterments were depreciated over the remaining amortization period. The effect of this change in estimates is a net reduction to depreciation expense of \$1,576,000 in the current year.

Construction in progress is not subject to depreciation until the project is complete and transferred to buildings.

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.

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.

Net Assets Invested in Properties

For some social housing projects and group homes, the Province provides grants to the Corporation for a portion of the construction costs. The Corporation records the portion of the grant relating to land as Net Assets Invested in Properties when the projects are completed.

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.

Financial Instruments

The Corporation's financial instruments consist of debenture subsidy receivable, due from BC Housing Management Commission, cash, long-term debt and interest payable. These financial instruments are accounted for as follows:

Loans and receivables The Corporation has classified the following financial assets as loans and receivables: debenture subsidy receivable and due from BC Housing Management Commission. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment. Given the short-term nature of these items their carrying value equates to their fair value.

Other financial liabilities The Corporation has classified the following financial liabilities as other financial liabilities: long-term debt and interest payable. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment. The fair value of interest payable equates its carrying value. See Note 5 in regard to fair value of long-term debt.

New Accounting Pronouncements

September 7, 2010, Treasury Board issued directive to all tax-payer supported Crown agencies to adopt Public Sector Accounting Standards, without not for profit provisions, for all fiscal years commencing after January 1, 2011. Management is currently assessing the impact to the financial statements.

3. INVESTMENT IN PROPERTIES

			2011 (\$000's) Net book value	2010 (\$000's) Net book value
	Cost	Accumulated depreciation		
Land	\$ 439,710	\$ -	\$ 439,710	\$ 435,931
Buildings	447,221	141,371	305,850	168,954
Construction in progress	203,426	-	203,426	134,832
	\$ 1,090,357	\$ 141,371	\$ 948,986	\$ 739,717

4. 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.

5. LONG-TERM DEBT

	2011 (\$000's)	2010 (\$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 (fair value - \$108,776; 2010 - \$120,659)	\$ 88,874	\$ 94,863
Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, bearing interest at rates from 0.08% to 8%, and secured by registered first mortgages on properties of the Corporation (fair value - \$125,344; 2010 - \$116,110)	129,081	110,993
	\$ 217,955	\$ 205,856

Notes to the Financial Statements *(continued)*

Provincial Rental Housing Corporation
March 31, 2011

Fair values were estimated by calculating the present value of the future mortgage payments discounted at the March 31st, 2011 yield of the Government of Canada benchmark bond plus 50 basis points.

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

	(\$000's)
2012	\$ 46,149
2013	23,213
2014	21,413
2015	29,825
2016	14,450
Thereafter	82,905
	\$ 217,955

6. FUNDING IN ADVANCE OF CONSTRUCTION

This balance represents construction funding received from various Provincial ministries in advance of property acquisition and construction of non-profit housing and group homes. Interest does not accrue on funds received.

7. DEFERRED CONTRIBUTIONS

	2011 (\$000's)	2010 (\$000's)
Balance, beginning of year	\$ 180,686	\$ 78,012
Receipts	239,359	106,883
Amortization	(8,556)	(4,209)
Balance, end of year	\$ 411,489	\$ 180,686

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.

9. PROPERTY SALE DEPOSIT

In 2008, the Corporation made a commitment to sell its Little Mountain property. The date of transfer of the property is conditional upon zoning approval by the City of Vancouver. The transfer will result in a material gain on sale, the amount of which will not be determinable until the title to the property is actually transferred.

10. 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, 2011.

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 4).

b. Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is not exposed to foreign exchange risk.

c. 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.

d. 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. The Corporation is not exposed to market risk.

e. 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.

11. CAPITAL DISCLOSURES

The Corporation considers its capital to be its net assets invested in properties, group home replacement reserves, self insurance reserves and unrestricted net assets. The Corporation's objectives when managing its capital are to safeguard its ability to continue as a going concern so it can continue to provide housing services. Annual budgets are developed and monitored to ensure the Corporation's capital is maintained at an appropriate level.

As a Crown corporation, the Corporation cannot incur an annual or cumulative deficit without the prior approval of the Minister of Housing and Social Development.

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