

Provincial Rental Housing Corporation
Financial Statements

March 31, 2020

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Provincial Rental Housing Corporation

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 22, 2020. The financial statements have also been reviewed and approved by the Board of Directors.

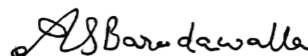
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel 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 the financial management of the Corporation and meets with them when required.



Shayne Ramsay
President



Abbas Barodawalla
Director

May 22, 2020



Independent auditor's report

To the Board of Directors and the Shareholder of Provincial Rental Housing Corporation

Our opinion

In our opinion, the accompanying financial statements of Provincial Rental Housing Corporation (the Corporation) as at March 31, 2020 and for the year then ended 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.

What we have audited

The Corporation's financial statements comprise:

- the statement of financial position as at March 31, 2020;
 - the statement of operations for the year then ended;
 - the statement of changes in net debt for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Emphasis of matter - basis of accounting

We draw attention to note 2 to the financial statements, which describes 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. Our opinion is not modified in respect of this matter.

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Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the 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.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 22, 2020

Provincial Rental Housing Corporation

Statement of Financial Position

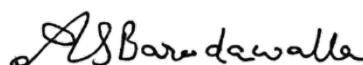
| | March 31 2020 (\$000's) | March 31 2019 (\$000's) |
|--|-------------------------------|-------------------------------|
| Financial assets | | |
| Cash | \$ 2 | \$ 1 |
| Debenture subsidy receivable | 839 | 839 |
| Due from BC Housing Management Commission (Note 6) | 11,941 | 113,855 |
| Long-term receivables (Note 3) | 238,465 | 243,573 |
| Loans receivable | - | 18 |
| | <u>251,247</u> | <u>358,286</u> |
| Liabilities | | |
| Interest payable | 268 | 302 |
| Deferred capital contributions (Note 4) | 980,775 | 850,430 |
| Unearned lease revenue | 31,766 | 30,126 |
| Site contamination (Note 5) | 6,825 | 6,861 |
| Long-term debt (Note 7) | 217,429 | 219,748 |
| | <u>1,237,063</u> | <u>1,107,467</u> |
| Net debt | <u>(985,816)</u> | <u>(749,181)</u> |
| Non-financial assets (Note 8) | | |
| Housing and projects under construction | 1,996,241 | 1,748,472 |
| Riverview Lands redevelopment | 50,023 | 37,817 |
| | <u>2,046,264</u> | <u>1,786,289</u> |
| Accumulated surplus | <u>\$ 1,060,448</u> | <u>\$ 1,037,108</u> |

Commitments (Note 10)
Impact of 2019 Coronavirus Disease (COVID-19) (Note 14)

On behalf of the Board of Directors:



Shayne Ramsay, President



Abbas Barodawalla, Director

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Operations

| Year Ended March 31 | 2020 (\$000's) | 2019 (\$000's) |
|--|---------------------|---------------------|
| Revenue | | |
| Provincial subsidy | \$ 30,006 | \$ 47,510 |
| Contribution revenue | 79,845 | 67,624 |
| (Loss) on sale of property | (854) | (12,531) |
| Lease revenue | 1,073 | 966 |
| Interest income | 5,091 | 7,502 |
| | <u>115,161</u> | <u>111,071</u> |
| Expenses | | |
| Depreciation | 75,913 | 66,131 |
| Interest on long-term debt | 10,695 | 11,343 |
| Social housing grant and subsidy | 18 | 165 |
| Group home and self insurance claims | 5,195 | 1,425 |
| | <u>91,821</u> | <u>79,064</u> |
| Annual surplus from operations | <u>23,340</u> | <u>32,007</u> |
| Accumulated surplus from operations at beginning of year | <u>1,037,108</u> | <u>1,005,101</u> |
| Accumulated surplus from operations at end of year | <u>\$ 1,060,448</u> | <u>\$ 1,037,108</u> |

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Changes in Net Debt

| Year Ended March 31 | 2020 (\$000's) | 2019 (\$000's) |
|---|---------------------|---------------------|
| Annual surplus | \$ 23,340 | \$ 32,007 |
| Additions of tangible capital assets | (336,880) | (455,337) |
| Depreciation of tangible capital assets | 75,913 | 66,131 |
| Disposal of tangible capital assets | 13,198 | 1,429 |
| | <u>(247,769)</u> | <u>(387,777)</u> |
| Riverview Lands redevelopment | <u>(12,206)</u> | <u>(21,765)</u> |
| Changes in net debt for the year | (236,635) | (377,535) |
| Net debt, beginning of year | <u>(749,181)</u> | <u>(371,646)</u> |
| Net debt, end of year | \$ <u>(985,816)</u> | \$ <u>(749,181)</u> |

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Statement of Cash Flows

| Year Ended March 31 | 2020 (\$000's) | 2019 (\$000's) |
|--|-------------------|-------------------|
| Cash flows provided by (used in) | | |
| Operating transactions | | |
| Annual surplus from operations | \$ 23,340 | \$ 32,007 |
| Adjustments to determine cash flows: | | |
| Depreciation of tangible capital assets | 75,913 | 66,131 |
| Amortization of deferred contributions | (57,125) | (47,709) |
| (Gain) Loss on sale of property | 854 | 12,531 |
| Little Mountain Interest adjustment | (5,091) | (7,502) |
| Amortization of unearned lease revenue | (1,064) | (890) |
| Changes in non-cash working capital (Note 9) | 101,898 | 86,707 |
| | <u>138,725</u> | <u>141,275</u> |
| Capital transactions | | |
| Property additions | (336,880) | (411,718) |
| Proceeds on sale of property | 12,344 | 2,415 |
| Riverview Lands redevelopment | (12,206) | (21,765) |
| | <u>(336,742)</u> | <u>(431,068)</u> |
| Financing transactions | | |
| Deferred capital contributions received | 187,470 | 303,841 |
| New long-term debt financing | 14,824 | 4,178 |
| Site contamination | (36) | (52) |
| New long term lease prepayment | 2,704 | - |
| Proceeds on long- term Receivable | 10,199 | - |
| Long-term debt repayment | (17,143) | (18,174) |
| | <u>198,018</u> | <u>289,793</u> |
| Increase in cash | 1 | - |
| Cash, beginning of year | <u>1</u> | <u>1</u> |
| Cash, end of year | \$ <u>2</u> | \$ <u>1</u> |

See accompanying notes to the financial statements

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

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 providers. 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 corporation that records the related rental revenue and is responsible for all the operating and administrative activities and related costs. Separate financial statements are prepared for the Commission.

2. Significant Accounting Policies

a) 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 13. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada is responsible for establishing Canadian public sector accounting standards.

b) 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. Actual results could differ from those estimates.

c) Revenue Recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

d) Deferred Contributions

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 13).

However, consistent with the Province of British Columbia, Ministry of Finance regulation 198/2011, funding received from the Province for the acquisition or construction of depreciable capital assets is recorded as a liability (deferred capital contribution) and is recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal periods during which the tangible capital asset is used to provide services.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

e) Tangible Capital Assets

i. The Corporation capitalizes its tangible capital assets at cost and depreciates its buildings using the straight-line method as follows:

- Newly constructed buildings are depreciated over a 40-year amortization period;
- Purchases of older buildings are depreciated over the remaining estimated useful life of the building; and,
- 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.

ii. Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. The write-down of tangible capital assets is accounted for in the statement of operations. Write-downs are not subsequently reversed.

f) 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 partner's operating costs, financing costs and a return of their capital.

g) Riverview Lands Redevelopment

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.

h) Property Leases

The Corporation leases property used for housing to housing providers. These 60-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.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

i) Financial Instruments

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

The classification of financial instruments is determined upon their initial recognition. Financial instruments are classified as level 1, 2 or 3 for the purposes of describing the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category as described below:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

All financial assets are assessed annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

A financial liability or its part is derecognized when it is extinguished.

j) Future accounting standards:

In March 2018, PSAB issued PS 3280, Asset Retirement Obligations. PS 3280 defines and establishes standards for recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets. The main features of PS 3280 are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- Asset retirement obligations include post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.

PS 3280 applies to fiscal years beginning on or after April 1, 2021. Management is in the process of assessing the impact of adoption of PS 3280 on the financial statements of the Corporation.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

3. Long-term Receivables

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

| | Little Mountain (\$000's) | Cedar Place (\$000's) | Total (\$000's) |
|------------------------|------------------------------|--------------------------|--------------------|
| March 31, 2019 Balance | \$ 233,374 | \$ 10,199 | \$ 243,573 |
| Interest adjustment | 5,091 | - | 5,091 |
| Cash Received | - | (10,199) | (10,199) |
| March 31, 2020 Balance | \$ 238,465 | \$ - | \$ 238,465 |

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 3.08 per cent.

b) Cedar Place

The sale of the Cedar Place property was completed on March 22, 2017 for proceeds of \$53.82 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 the Corporation. The Corporation received 90 family units as at March 31, 2019 and \$10.199 million cash as at March 31, 2020.

4. Deferred Capital Contributions

| | 2020 (\$000's) | 2019 (\$000's) |
|----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 850,430 | \$ 594,298 |
| Receipts | 187,470 | 303,841 |
| Amortization | (57,125) | (47,709) |
| Balance, end of year | \$ 980,775 | \$ 850,430 |

Deferred capital 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).

5. Site Contamination

The Ministry of Citizens' Services (formerly the Ministry of Technology, Innovation and Citizens' Services) and the Ministry of Health transferred \$7.4 million to the Corporation for remediation of contaminated sites at the Riverview Lands project site. As of March 31, 2020, the total liability is \$6.83 million (2019: \$6.86 million). The Corporation reviews the contamination and cost of remediation over the life of

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

the projects and adjust the liability as information available. As at March 31, 2020, the liability amount is enough to cover the present value of remediation costs required, any portion of the amount transferred that proves to exceed the actual amount required will be repayable by the Corporation to the Ministry of Citizens' Services.

6. Related Party Transactions

a) BC Government Reporting Entities

The Corporation is related through common control to all Province of BC ministries, agencies, Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are considered to be in the normal course of operations and are recorded at the exchanged amount, which is the amount of consideration established and agreed to by the related parties.

b) British Columbia Management Housing Commission (the Commission)

The Commission was established in 1967 to deliver on the provincial government's commitment to the development, management and administration of subsidized housing throughout the Province of British Columbia. The Commission is a Crown corporation and has a separate governance structure. The rental housing units of the Corporation are managed by the Commission who records the related rental revenue and is responsible for all the operating and administrative activities of the units. The assets and liabilities, including the capital cost of projects owned by the Corporation, and results from operations of the Corporation are not included in the statements of the Commission. Separate financial statements are prepared for the Commission.

During the year, the Corporation provided \$1,533,000 (2019: \$1,611,000) to the Commission for services performed by the Commission on behalf of the Corporation and the Commission provided \$239,496,000 (2019: \$371,136,000) to the Corporation for capital grants, self-insurance, debenture and mortgage subsidies, etc. As at March 31, 2020, amounts due from the Commission totalled \$11,941,000 (2019: \$113,855,000) and 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.

The following types of transactions occur by the Commission on behalf of the Corporation:

i. Directly Managed Debenture Subsidy

The Commission provides to the Corporation a debenture subsidy for the principal and interest costs of the long-term debt related to properties that are directly managed by the Commission.

ii. Group Home Mortgage Subsidy

The Commission provides to the Corporation a group home mortgage subsidy for the mortgage payments made to chartered banks and Canada Mortgage Housing Corporation (CMHC).

iii. Administration and Financing

The Commission collects rental revenue and manages the administration, financing, operations and capital projects of the Corporation. The Commission charges a 5 per cent administration fee on the acquisition or disposition of property for services performed.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

7. Long-Term Debt

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | (\$000's) | (\$000's) |
| Canada Mortgage and Housing Corporation (CMHC) Debenture mortgages repayable at the end of each year, maturing between the years 2024 and 2029, with a weighted average rate of 7.86% (2019: 7.82%) and secured by unregistered first mortgages on properties of the Corporation. | \$ 32,085 | \$ 37,440 |
| Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, with a weighted average rate of 2.72% (2019: 2.67%), secured by registered first mortgages on properties of the Corporation. | 114,180 | 106,769 |
| 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. | 71,164 | 75,539 |
| | \$ 217,429 | \$ 219,748 |

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

| | (\$000's) |
|------------|-------------------|
| 2020 | \$ 37,633 |
| 2021 | 24,911 |
| 2022 | 25,484 |
| 2023 | 21,615 |
| 2024 | 44,944 |
| Thereafter | 62,842 |
| | \$ 217,429 |

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

8. Non-Financial Assets

a) Housing and projects under construction

| Cost | 2019 (\$000's) | | | 2020 (\$000's) |
|--------------------------|---------------------|-------------------|--------------------|---------------------|
| | Beginning | Additions | Disposals | Ending |
| Land | \$ 493,723 | \$ 53,722 | \$ (6,460) | \$ 540,985 |
| Buildings | 1,601,969 | 207,624 | (8,546) | 1,801,047 |
| Construction in progress | 119,326 | 75,534 | - | 194,860 |
| | <u>\$ 2,215,018</u> | <u>\$ 336,880</u> | <u>\$ (15,006)</u> | <u>\$ 2,536,892</u> |

| Depreciation | Beginning Accumulated | Annual Expense | Disposals Adjustments | Ending Accumulated |
|---------------------|--------------------------|-------------------|--------------------------|-----------------------|
| Buildings | \$ 466,546 | \$ 75,913 | \$ (1,808) | \$ 540,651 |

| Net Book Value | Beginning | Ending |
|--------------------------|---------------------|---------------------|
| Land | \$ 493,723 | \$ 540,985 |
| Buildings | 1,135,423 | 1,260,396 |
| Construction in progress | 119,326 | 194,860 |
| | <u>\$ 1,748,472</u> | <u>\$ 1,996,241</u> |

b) Riverview Lands redevelopment

On February 2, 2015, ownership of the Riverview Lands was transferred to the Corporation from the Ministry of Citizens' Services (formerly the Ministry of Technology, Innovation and Citizens' Services). 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 incidental carrying costs net of any revenues generated 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.

| | 2019 (\$000's) | | | 2020 (\$000's) |
|----------------------|-------------------|------------------|-------------------|-------------------|
| | Beginning | Expenditures | Revenue | Ending |
| Construction | \$ 33,455 | \$ 10,488 | \$ - | \$ 43,943 |
| Net operating | 4,362 | 7,299 | (5,581) | 6,080 |
| | <u>\$ 37,817</u> | <u>\$ 17,787</u> | <u>\$ (5,581)</u> | <u>\$ 50,023</u> |

Provincial Rental Housing Corporation

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As part of its ongoing consultations with the Kwikwetlem First Nation (KFN) respecting the future use and redevelopment of the Riverview Lands, the Commission 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. The Corporation, the Commission and the KFN continue to work together to conclude a final impact benefits agreement in relation to the Riverview Lands.

9. Changes in Non-cash Working Capital

| | 2020 (\$000's) | 2019 (\$000's) |
|---|-------------------|-------------------|
| Loans receivable | \$ 18 | \$ 164 |
| Interest payable | (34) | (33) |
| Due from BC Housing Management Commission | 101,914 | 86,576 |
| Total | \$101,898 | \$ 86,707 |

10. Commitments

The Corporation has entered into a public-private partnership project with Habitat Housing Initiative (HHI) to renovate 13 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 Commission's annual service payments to HHI for the capital cost and financing, the facility maintenance and lifecycle costs. Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

As construction progressed, the asset values were recorded as tangible capital assets (see Note 8) and the obligation was recorded as a liability and included in long-term debt (see Note 7). Upon construction completion, the obligation is met through the capital component of the monthly service payments over the term of the Project Agreement that is paid directly by the Commission.

| | Capital (\$000's) | Facility Maintenance and Lifecycle (\$000's) | Total Payments (\$000's) |
|--------------|----------------------|--|-----------------------------|
| 2021 | \$ 9,461 | \$ 2,735 | \$ 12,196 |
| 2022 | 9,461 | 2,228 | 11,689 |
| 2023 | 9,461 | 2,165 | 11,626 |
| 2024 | 9,461 | 3,292 | 12,753 |
| 2025 | 9,461 | 2,031 | 11,492 |
| Thereafter | 55,186 | 11,751 | 66,937 |
| Total | \$ 102,491 | \$ 24,202 | \$ 126,693 |

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

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 as at March 31, 2020:

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 BC Housing Management Commission (see Note 6) and long-term receivables (see Note 3).

The Corporation is not exposed to significant credit risk with respect to the amounts due from the Commission. To reduce the risk associated with long-term receivables, the Corporation periodically evaluates the collectability of its accounts receivable and adjusts it to reflect the true value of the receivable when necessary.

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.

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.

The majority of the Corporation's financial assets and liabilities are current, maturing within 1 year. The table below shows the various financial assets and liabilities that mature after 1 year.

Provincial Rental Housing Corporation

Notes to the Financial Statements

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| 2020 | | | | |
|-------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Financial assets | Up to 1 year (\$000's) | 1 to 5 years (\$000's) | Over 5 years (\$000's) | Total (\$000's) |
| Long-term receivables | \$ - | \$ 205,896 | \$ 32,569 | \$ 238,465 |
| Total | \$ - | \$ 205,896 | \$ 32,569 | \$ 238,465 |

| Financial liabilities | Up to 1 year (\$000's) | 1 to 5 years (\$000's) | Over 5 years (\$000's) | Total (\$000's) |
|------------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Long-term debt | \$ 37,633 | \$ 116,954 | \$ 62,842 | \$ 217,429 |

| 2019 | | | | |
|-------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Financial assets | Up to 1 year (\$000's) | 1 to 5 years (\$000's) | Over 5 years (\$000's) | Total (\$000's) |
| Long-term receivables | \$ 10,199 | \$ 179,994 | \$ 53,380 | \$ 243,573 |
| Loan receivables | 18 | - | - | 18 |
| Total | \$ 10,217 | \$ 179,994 | \$ 53,380 | \$ 243,591 |

| Financial liabilities | Up to 1 year (\$000's) | 1 to 5 years (\$000's) | Over 5 years (\$000's) | Total (\$000's) |
|------------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Long-term debt | \$ 37,003 | \$ 98,608 | \$ 84,137 | \$ 219,748 |

d) Foreign Exchange Risk or Other Price Risk

The Corporation is not exposed to foreign exchange risk or other price risk.

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.

Provincial Rental Housing Corporation

Notes to the Financial Statements

March 31, 2020

13. 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 recognizing them in revenue at the same rate that amortization of the related capital asset is recorded. 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, 2019, an increase to annual surplus of \$278,908,000; and,
- b) At March 31, 2019, an increase to accumulated surplus and a decrease to contributions of \$808,595,000.
- c) For the year ended March 31, 2020, an increase to annual surplus of \$147,600,000; and,
- d) At March 31, 2020, an increase to accumulated surplus and a decrease to contributions of \$956,219,000.

14. Impact of 2019 Coronavirus Disease (COVID-19)

COVID-19 did not cause any significant impact to the Corporations assets or liabilities or on its operations on or before the financial statement date. As part of the province's \$5 billion action plan to respond to the pandemic, the Corporation will be purchasing select hotels and other sites to provide more affordable homes for people living in encampments in Vancouver and Victoria. All costs associated with COVID-19 will be funded from the province's \$5 billion action plan.