

Financial Statements



British Columbia Housing Management Commission

Financial Statements March 31, 2007

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 11, 2007. 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 independent external auditors. The external auditors' 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 Auditors' 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, which includes 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 Commissioners. The Audit and Risk Management Committee also recommends the appointment of external auditors to the Board of Commissioners. The external auditors have full and open access to the Audit and Risk Management Committee, with and without the presence of management.



Shayne Ramsay
Chief Executive Officer

May 11, 2007



Dan Maxwell
*Vice President of Corporate Services
and Chief Financial Officer*

Auditors' Report

To the Board of Commissioners of
British Columbia Housing Management Commission

We have audited the balance sheet of British Columbia Housing Management Commission as at March 31, 2007, and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2006 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated May 5, 2006.

Vancouver, Canada
May 11, 2007



BDO Dunwoody LLP
Chartered Accountants & Advisors
600 Cathedral Place - 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2



Balance Sheet

British Columbia Housing Management Commission

As at March 31	2007 (\$000's)	2006 (\$000's)
ASSETS		
Current		
Cash	\$ 29,811	\$ 1,497
Short term investments	62,785	34,895
Receivables	14,043	11,405
Prepaid expenses and housing subsidies	12,075	11,460
Due from Province of British Columbia	258	2,171
Due from Canada Mortgage and Housing Corporation	21,789	42,908
Current portion of mortgages receivable	75	76
Construction loans to housing projects (Note 3)	82,728	83,868
	223,564	188,280
Mortgages receivable (Note 4)	2,931	3,369
Long-term receivables	1,873	1,873
Proposal development advances (Note 5)	428	10,853
Capital assets (Note 6)	6,330	5,339
	\$ 235,126	\$ 209,714
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 23,778	\$ 24,492
Deferred revenue (Note 7)	35,796	16,616
Due to Provincial Rental Housing Corporation (Note 8)	68,241	10,761
Tenants' prepaid rent	432	766
Due to Provincial Treasury	10,028	60,975
Society funds held on deposit (Note 9)	19,590	16,430
Grants received in advance of construction (Note 10)	51,723	63,093
Self Insurance Funds (Note 11)	-	9,553
Group Home Replacement Funds (Note 12)	-	5,885
	209,588	208,571
Social Housing Agreement Reserves (Note 13)	24,289	-
	233,877	208,571
PROVINCE'S ACCOUNT	1,249	1,143
	\$ 235,126	\$ 209,714

Commitments (Note 15) • Contingency (Note 17)

On behalf of the Board



Chair

See accompanying notes to the financial statements

Statement of Operations

British Columbia Housing Management Commission

As at March 31	2007 (\$000's)	2006 (\$000's)
REVENUE		
Provincial contributions	\$ 318,644	\$ 200,274
Federal contributions	135,852	102,904
Tenant rent	29,733	29,506
Other	13,311	10,438
	497,540	343,122
EXPENSES		
Housing subsidies	362,621	203,765
Building modernization and improvement	49,980	63,631
Salaries and labour	27,894	26,317
Operating expenses	14,318	5,293
Office and overhead	9,187	7,664
Building maintenance	9,064	7,860
Utilities	9,047	9,315
Building mortgage costs	7,930	12,860
Grants in lieu of property taxes (Note 14)	5,128	5,216
Interest expense	2,265	1,133
	497,434	343,054
Excess of revenue over expenses	106	68
Province's account, beginning of year	1,143	1,075
Province's account, end of year	\$ 1,249	\$ 1,143

See accompanying notes to the financial statements

Statement of Cash Flows

British Columbia Housing Management Commission

As at March 31	2007 (\$000's)	2006 (\$000's)
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 106	\$ 68
Adjustments to determine cash flows:		
Depreciation	3,846	1,977
Change in non-cash working capital	18,731	(20,075)
	22,683	(18,030)
INVESTING ACTIVITIES		
Short term investments	(27,890)	(13,702)
Mortgages receivable	439	13,001
Long-term receivables	-	4
Proposal development advances	10,425	(3,415)
Construction loans provided to housing projects	1,140	(71,981)
Additions to capital assets	(4,837)	(3,515)
	(20,723)	(79,608)
FINANCING ACTIVITIES		
Deferred revenue	19,180	16,262
Advances from Provincial Rental Housing Corporation	42,042	3,129
Due to Provincial Treasury	(50,947)	53,962
Society funds held on deposit	3,160	3,420
Grants received in advance of construction	(11,370)	20,479
Social Housing Agreement Reserves	24,289	-
	26,354	97,252
Increase (decrease) in cash	28,314	(386)
Cash, beginning of year	1,497	1,883
Cash, end of year	\$ 29,811	\$ 1,497

See accompanying notes to the financial statements

Notes to the Financial Statements March 31, 2007

British Columbia Housing Management Commission

1. GENERAL

The British Columbia Housing Management Commission is a Crown agency, established in 1967, responsible for: developing new social housing under Independent Living BC, the Provincial Housing Program and the Provincial Homelessness Initiative; for administering the Province's Shelter Aid for Elderly Renters program and Rental Assistance Program; and for 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.

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. 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.

Short Term Investments

Short term investments include bonds, marketable securities, income and investment trust funds and bond, equity and mortgage funds. Short term investments are stated at the lower of cost and net realizable value.

Capital Assets

Capital assets are recorded at cost and depreciated over their estimated useful lives. Both computer hardware and software are depreciated on the straight-line method over three years. All other capital assets are depreciated on the straight-line method over five years.

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 51,000 active plan members and approximately 30,000 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, 2005, indicated an unfunded liability of \$767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Commission paid \$1,742,964 for employer contributions to the Plan in fiscal 2007 (2006: \$1,224,215). The employee contribution to the Plan was \$1,547,245 in fiscal 2007 (2006: \$1,049,570).

British Columbia Housing Management Commission

Notes to the Financial Statements (continued)

Financial Instruments

The Commission's financial instruments consist of cash, short term investments, receivables, loans and advances, mortgage receivables, payables and amounts due to/from Canada Mortgage and Housing Corporation, Provincial Rental Housing Corporation and Provincial Treasury. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. Except for short term investments, the fair value of these instruments approximates their carrying values. The fair value of short term investments is \$63,293,000 (2006: \$36,526,000).

In 2007/2008 fiscal year, the Commission will adopt new accounting standards for financial instruments in accordance with the recommendations of the Canadian Institute of Chartered Accountants. This will require the Commission to record the short term investments at their fair market value. The impact as of April 1, 2007 is an unrealized gain to the Province's Account of \$508,000.

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 unsecured 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, in its capacity as a National Housing Act approved lender, occasionally acts as the take-out lender for some projects. These mortgages are generally held for a short period, one year or less, until such time as the borrower confirms its long-term financing arrangements. The mortgages are secured by property and bear interest at rates from 4.18% to 9.58%.

5. PROPOSAL DEVELOPMENT ADVANCES

Loan advances are made to sponsoring societies for needs studies, incorporation and site development costs. These advances are non-interest bearing 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 was not considered necessary for this year or prior.

6. CAPITAL ASSETS

			2007 (\$000's) Net book value	2006 (\$000's) Net book value
	Cost	Accumulated depreciation		
Computer software	\$ 12,303	\$ 8,057	\$ 4,246	\$ 3,940
Computer hardware	5,798	5,233	565	589
Tenant improvements	2,642	2,025	617	160
Office furniture	2,136	1,521	615	432
Office equipment	777	734	43	87
Vehicles	293	93	200	80
Grounds equipment	264	220	44	51
	\$ 24,213	\$ 17,883	\$ 6,330	\$ 5,339

7. DEFERRED REVENUE

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

	2007 (\$000's)	2006 (\$000's)
Provincial Contributions	\$ 28,414	\$ 16,195
Canada Mortgage and Housing Corporation	7,327	-
Other Agencies	55	421
	\$ 35,796	\$ 16,616

The Social Housing Agreements Reserves (Note 13) 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.

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.

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)	Grant received (transfers) (\$000's)	Construction costs incurred (\$000's)	Balance, end of year (\$000's)
Project Grants	\$ 38,602	\$ 20,042	\$ (36,096)	\$ 22,548
CMHC – Phase 1	8,160	4,325	(8,664)	3,821
CMHC – Phase 2	11,983	22,262	(14,070)	20,175
Ministry – Other	4,348	107,881	(107,050)	5,179
	\$ 63,093	\$ 154,510	\$ (165,880)	\$ 51,723

British Columbia Housing Management Commission

Notes to the Financial Statements (continued)

11. SELF INSURANCE FUNDS

During the year, the Commission transferred the Self Insurance Funds to the Provincial Rental Housing Corporation. In previous periods, these funds were recorded as liabilities of the Commission to cover claims below the deductible amounts of insured properties and for uninsured losses. The funds are now recorded as reserves in the shareholder equity of the Provincial Rental Housing Corporation.

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ 9,553	\$ 8,048
Additional funding	1,900	1,251
Interest earned	295	347
	11,748	9,646
Less: claims expense	(358)	(93)
transfer to Provincial Rental Housing Corporation	(11,390)	-
Balance, end of year	\$ -	\$ 9,553

12. GROUP HOME REPLACEMENT FUNDS

During the year, the Commission transferred the Group Home Replacement Funds to the Provincial Rental Housing Corporation. In previous periods, these funds were recorded as liabilities of the Commission to fund major repairs and maintenance of buildings owned by the Provincial Rental Housing Corporation. The funds are now recorded as reserves in the shareholder equity of the Provincial Rental Housing Corporation.

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ 5,885	\$ 6,115
Additional funding	1,129	913
Interest	132	112
	7,146	7,140
Less: expenditures for repairs and maintenance	(1,604)	(1,255)
transfer to Provincial Rental Housing Corporation	(5,542)	-
Balance, end of year	\$ -	\$ 5,885

13. 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.

14. GRANTS IN LIEU OF 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.

15. COMMITMENTS

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

	(\$000's)
2008	\$ 2,034
2009	1,821
2010	1,867
2011	793
2012	229

16. 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 Provincial Rental Housing Corporation (PRHC). However, an amount equivalent to depreciation on those capital costs is in part payable to PRHC and in part credited to CMHC.

17. CONTINGENCY

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 to be in the range of \$ 133.9 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.

Letters of Guarantee

As at March 31, 2007, the Commission was contingently liable with respect to letters of guarantee totalling \$826,371 for municipal development cost charges.

Provincial Rental Housing Corporation

Financial Statements March 31, 2007

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 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 11, 2007. The financial statements have also been reviewed by the Audit and Risk Management Committee 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 Audit and Risk Management Committee.

The financial statements have been examined by independent external auditors. The external auditors' 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 and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' 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 external auditors to the Board of Directors. The external auditors have full and open access to the Audit and Risk Management Committee, with and without the presence of management.



Shayne Ramsay
President



Dan Maxwell
Chief Financial Officer

May 11, 2007

Auditors' Report

To the Shareholder of the
Provincial Rental Housing Corporation

We have audited the balance sheet of Provincial Rental Housing Corporation as at March 31, 2007 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2006 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated May 5, 2006.

Vancouver, Canada
May 11, 2007



BDO Dunwoody LLP
Chartered Accountants & Advisors
600 Cathedral Place - 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2



Balance Sheet

Provincial Rental Housing Corporation

Year ended March 31	2007 (\$000's)	2006 (\$000's)
ASSETS		
Investment in properties (Note 3)	\$ 458,393	\$ 351,565
Debenture subsidy receivable	839	1,810
Due from British Columbia Housing Management Commission (Note 4)	68,241	10,761
Cash	1	1
	<u>\$ 527,474</u>	<u>\$ 364,137</u>
LIABILITIES		
Long-term debt (Note 5)	\$ 206,139	\$ 127,878
Interest payable	584	624
Provincial transfer tax payable	7,431	-
Unearned lease revenue	94,035	96,086
Funding in advance of construction (Note 6)	52,535	4,942
Deferred contributions (Note 7)	26,028	21,457
	<u>386,752</u>	<u>250,987</u>
SHAREHOLDER'S EQUITY		
Contributed surplus	96,269	73,197
Retained earnings	44,453	39,953
	<u>140,722</u>	<u>113,150</u>
	<u>\$ 527,474</u>	<u>\$ 364,137</u>
<i>Contributed surplus is represented by:</i>		
Contributed surplus on establishment	84,006	84,006
Property acquisition contribution (Note 8)	(4,669)	(10,809)
Self Insurance reserve (Note 9)	11,390	-
Group home replacement reserve (Note 10)	5,542	-
	<u>\$ 96,269</u>	<u>\$ 73,197</u>

Commitments (Note 12)

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	2007 (\$000's)	2006 (000's)
REVENUE		
Directly managed debenture subsidy	\$ 12,578	\$ 7,260
Group home mortgage subsidy	7,339	7,255
Lease revenue	2,051	2,051
Contribution revenue	1,452	1,234
	23,420	17,800
EXPENSES		
Depreciation	5,596	4,227
Interest on long-term debt	13,324	7,043
	18,920	11,270
Excess of revenue over expenses	4,500	6,530
Retained Earnings beginning of year	39,953	33,423
Retained Earnings end of year	\$ 44,453	\$ 39,953

See accompanying notes to the financial statements

Statement of Cash Flows

Provincial Rental Housing Corporation

Year Ended March 31	2007 (\$000's)	2006 (\$000's)
Cash flows provided by (used in)		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 4,500	\$ 6,530
Adjustments to determine cash flows:		
Depreciation	5,596	4,227
Amortization of unearned lease revenue	(2,051)	(2,051)
Amortization of deferred contributions	(1,625)	(1,234)
Transfer of self insurance reserve	11,390	-
Transfer of group home replacement reserve	5,542	-
Change in non-cash working capital	8,362	18
	31,714	7,490
INVESTING ACTIVITIES		
Property acquisitions	(112,423)	(11,822)
Property disposals	1,656	1,550
	(110,767)	(10,272)
FINANCING ACTIVITIES		
New financing	87,350	5,468
Long-term debt repayment	(9,089)	(3,953)
Funding in advance of construction	47,593	774
Deferred contributions	6,196	6,119
Property acquisition contribution receipts	4,483	139
Repayments to the Province	-	(3,911)
Advances to British Columbia Housing Management Commission	(57,480)	(1,854)
	79,053	2,782
Increase in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	\$ 1	\$ 1

See accompanying notes to the financial statements

Notes to the Financial Statements March 31, 2007

Provincial Rental Housing Corporation

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

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. 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 over 25 years.

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 property acquisition contribution when the related assets are acquired.

Property Acquisition Contribution

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 construction grants as property acquisition contribution 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 property acquisition contribution.

Financial Instruments

The Corporation's financial instruments consist of cash, receivables, due from British Columbia Housing Management Commission, advances, payables and long-term debt. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these instruments approximates their carrying values except for long term debt (Note 5). Fair value of long term debt is determined by calculating the present value of the future mortgage payments discounted at the March 31st yield of the Government of Canada benchmark bond plus 50 basis points.

Provincial Rental Housing Corporation

Notes to the Financial Statements (continued)

3. INVESTMENT IN PROPERTIES

	Cost	Accumulated depreciation	2007 (\$000's) Net book value	2006 (\$000's) Net book value
Land	\$ 358,023	\$ -	\$ 358,023	\$ 281,601
Buildings	197,661	101,580	96,081	66,094
Construction in progress	4,289	-	4,289	3,870
	\$ 559,973	\$ 101,580	\$ 458,393	\$ 351,565

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

	2007 (\$000's)	2006 (\$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 3.59% to 8%, and secured by unregistered first mortgages on properties of the Corporation (Fair value - \$151,234)	\$ 110,822	\$ 36,483
Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, bearing interest at rates from 4.35% to 14.25%, and secured by registered first mortgages on properties of the Corporation (Fair value - \$96,203)	\$ 95,317	91,395
	\$ 206,139	\$ 127,878

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

	(\$000's)
2008	\$ 31,903
2009	28,716
2010	17,397
2011	24,946
2012	18,696
Thereafter	84,481
	\$ 206,139

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

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ 21,457	\$ 16,572
Receipts	6,196	6,119
Amortization	(1,625)	(1,234)
Balance, end of year	\$ 26,028	\$ 21,457

8. PROPERTY ACQUISITION CONTRIBUTION

	2007 (\$000's)	2006 (\$000's)
Balance, beginning of year	\$ (10,809)	\$ (7,223)
Receipts	4,483	139
Surplus on property sales	1,657	186
Repayments to the Province	-	(3,911)
Balance, end of year	\$ (4,669)	\$ (10,809)

9. SELF INSURANCE RESERVES

During fiscal 2006/2007, BC Housing Management Commission transferred the Self Insurance Funds to the Corporation. The reserves cover claims below the deductible amounts of insured properties and for uninsured losses. In previous years, these funds were recorded as liabilities of the Commission.

10. GROUP HOME REPLACEMENT RESERVES

During fiscal 2006/2007, the BC Housing Management Commission transferred the Group Home Replacement Funds to the Corporation. The reserves fund major repairs and maintenance of buildings owned by the Provincial Rental Housing Corporation. In previous years, these funds were recorded as liabilities of the Commission.

11. RELATED PARTY TRANSACTIONS

a. Insurance

The Corporation does not insure 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.

12. COMMITMENTS

The Corporation committed to the purchase of certain single room occupancy hotels and apartment buildings for a total cost of approximately \$50 million closing within 90 days of the Corporation's year end.