

**METRO VANCOUVER HOUSING CORPORATION (MVHC)
BOARD OF DIRECTORS**

REGULAR BOARD MEETING

Friday, April 27, 2018

9:00 A.M.

28th Floor Boardroom, 4730 Kingsway, Burnaby, British Columbia

[Membership and Votes](#)

A G E N D A¹

A. ADOPTION OF THE AGENDA

1. April 27, 2018 Regular Meeting Agenda

That the MVHC Board adopt the agenda for its regular meeting scheduled for April 27, 2018 as circulated.

B. ADOPTION OF THE MINUTES

1. March 23, 2018 Regular Meeting Minutes

That the MVHC Board adopt the minutes for its regular meeting held March 23, 2018 as circulated.

C. DELEGATIONS

D. INVITED PRESENTATIONS

E. CONSENT AGENDA

Note: Directors may adopt in one motion all recommendations appearing on the Consent Agenda or, prior to the vote, request an item be removed from the Consent Agenda for debate or discussion, voting in opposition to a recommendation, or declaring a conflict of interest with an item.

1. PERFORMANCE AND AUDIT COMMITTEE REPORTS

1.1 Audited 2017 Financial Statements

That the MVHC Board approve the Audited 2017 Financial Statements for the Metro Vancouver Housing Corporation.

¹ Note: Recommendation is shown under each item, where applicable.

2. FINANCE AND INTERGOVERNMENT COMMITTEE REPORTS

Note: The following item will be considered by the Finance and Intergovernment Committee on April 20, 2018. Any resulting changes to recommendations will be presented on table at the Board meeting.

2.1 Operating, Statutory and Discretionary Reserves Policy

That the MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy."

F. ITEMS REMOVED FROM THE CONSENT AGENDA

G. REPORTS NOT INCLUDED IN CONSENT AGENDA

H. MOTIONS FOR WHICH NOTICE HAS BEEN GIVEN

I. OTHER BUSINESS

J. BUSINESS ARISING FROM DELEGATIONS

K. RESOLUTION TO CLOSE MEETING

Note: The Board must state by resolution the basis under section 90 of the Community Charter on which the meeting is being closed. If a member wishes to add an item, the basis must be included below.

L. RISE AND REPORT (Items Released from Closed Meeting)

M. ADJOURNMENT/CONCLUSION

That the MVHC Board adjourn/conclude its regular meeting of April 27, 2018.

**METRO VANCOUVER HOUSING CORPORATION
BOARD OF DIRECTORS**

Minutes of the Regular Meeting of the Metro Vancouver Housing Corporation (MVHC) Board of Directors held at 9:55 a.m. on Friday, March 23, 2018 in the 28th Floor Boardroom, 4730 Kingsway, Burnaby, British Columbia.

MEMBERS PRESENT:

Port Coquitlam, Chair, Director Greg Moore
 Vancouver, Vice Chair, Director Raymond Louie
 Anmore, Director John McEwen
 Belcarra, Director Ralph Drew
 Bowen Island, Director Maureen Nicholson
 Burnaby, Director Derek Corrigan
 Burnaby, Director Sav Dhaliwal
 Burnaby, Director Colleen Jordan (departed at 9:55 a.m.)
 Coquitlam, Alternate Director Brent Asmundson for Craig Hodge
 Coquitlam, Alternate Director Terry O’Neill for Richard Stewart
 Delta, Director Lois Jackson
 Delta, Director Bruce McDonald
 Electoral Area A, Director Maria Harris
 Langley City, Director Rudy Storteboom
 Langley Township, Director Charlie Fox
 Langley Township, Director Bob Long
 Lions Bay, Director Karl Buhr
 Maple Ridge, Director Nicole Read
 New Westminster, Alternate Director Lorrie Williams for Jonathan Coté

North Vancouver City, Director Darrell Mussatto
 North Vancouver District, Director Richard Walton
 Pitt Meadows, Director John Becker
 Port Moody, Director Mike Clay
 Richmond, Director Malcolm Brodie
 Richmond, Director Harold Steves
 Surrey, Director Tom Gill
 Surrey, Director Bruce Hayne
 Surrey, Director Linda Hepner
 Surrey, Alternate Director Mary Martin for Dave Woods
 Surrey, Director Barbara Steele
 Surrey, Director Judy Villeneuve
 Vancouver, Alternate Director Elizabeth Ball for Andrea Reimer
 Vancouver, Director Adriane Carr
 Vancouver, Director Heather Deal
 Vancouver, Director Kerry Jang
 Vancouver, Director Gregor Robertson
 Vancouver, Director Tim Stevenson
 West Vancouver, Alternate Director Mary-Ann Booth for Michael Smith
 White Rock, Director Wayne Baldwin

MEMBERS ABSENT:

Tsawwassen, Director Bryce Williams

STAFF PRESENT:

Carol Mason, Chief Administrative Officer
 Janis Knaupp, Legislative Services Coordinator, Board and Information Services
 Chris Plagnol, Corporate Officer

A. ADOPTION OF THE AGENDA

1. March 23, 2018 Regular Meeting Agenda

It was MOVED and SECONDED

That the MVHC Board adopt the revised agenda for its regular meeting scheduled for March 23, 2018 as circulated.

CARRIED

9:55 a.m. Director Jordan departed the meeting.

B. ADOPTION OF THE MINUTES

1. February 23, 2018 Regular Meeting Minutes

It was MOVED and SECONDED

That the MVHC Board adopt the minutes for its regular meeting held February 23, 2018 as circulated.

CARRIED

C. DELEGATIONS

No items presented.

D. INVITED PRESENTATIONS

No items presented.

E. CONSENT AGENDA

It was MOVED and SECONDED

That the MVHC Board adopt the recommendation in the following item presented in the March 23, 2018 MVRD Board Consent Agenda:

1.1 Public Engagement Policy

CARRIED

The item and recommendation referred to above is as follows:

1.1 Public Engagement Policy

Report dated March 7, 2018 from Vanessa Anthony, Program Manager, Public Involvement, Water Services; Megan Gerryts, Corporate Projects Coordinator, Legal and Legislative Services; and Andrea Winkler, Program Manager, Public Involvement, Liquid Waste Services, seeking MVHC Board approval of Metro Vancouver's *Public Engagement Policy*

Recommendation:

That the MVHC Board approve the *Public Engagement Policy* as presented in the report dated March 7, 2018, titled "Public Engagement Policy."

Adopted on Consent

F. ITEMS REMOVED FROM THE CONSENT AGENDA

No items presented.

G. REPORTS NOT INCLUDED IN CONSENT AGENDA

No items presented.

H. MOTIONS FOR WHICH NOTICE HAS BEEN GIVEN

No items presented.

I. OTHER BUSINESS

No items presented.

J. BUSINESS ARISING FROM DELEGATIONS

No items presented.

K. RESOLUTION TO CLOSE MEETING

It was MOVED and SECONDED

That the MVHC Board close its regular meeting scheduled for March 23, 2018 pursuant to the *Community Charter* provisions, Section 90 (1) (g) as follows:

“90 (1) A part of a board meeting may be closed to the public if the subject matter being considered relates to or is one or more of the following:

(g) litigation or potential litigation affecting the regional district.”

CARRIED

L. RISE AND REPORT (Items Released from Closed Meeting)

No items presented.

M. ADJOURNMENT/CONCLUSION

It was MOVED and SECONDED

That the MVHC Board adjourn its regular meeting of March 23, 2018.

CARRIED

(Time: 9:56 a.m.)

CERTIFIED CORRECT

Chris Plagnol, Corporate Officer

Greg Moore, Chair

To: Performance and Audit Committee

From: Phil Trotzuk, Chief Financial Officer

Date: April 3, 2018

Meeting Date: April 11, 2018

Subject: **Audited 2017 Financial Statements**

RECOMMENDATION

- a) That the MVRD Board approve the Audited 2017 Consolidated Financial Statements for the Metro Vancouver Regional District;
 - b) That the GVS&DD Board approve the Audited 2017 Financial Statements for the Greater Vancouver Sewerage and Drainage District;
 - c) That the GVWD Board approve the Audited 2017 Financial Statements for the Greater Vancouver Water District;
 - d) That the MVHC Board approve the Audited 2017 Financial Statements for the Metro Vancouver Housing Corporation.
-

PURPOSE

To present, for approval, the Audited 2017 Financial Statements for the Metro Vancouver Districts and the Metro Vancouver Housing Corporation.

BACKGROUND

Legislation requires that annual Audited Financial Statements be prepared for the Metro Vancouver Districts and Metro Vancouver Housing Corporation and presented at a public meeting of the Board of Directors. The Audited Financial Statements for 2017 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") and have received an unqualified audit opinion by the external auditors, BDO Canada LLP.

2017 FINANCIAL STATEMENT HIGHLIGHTS

Under PSAS regulations, governments are required to present four statements with explanatory notes - Statement of Financial Position (Exhibit A), Statement of Operations (Exhibit B), Statement of Net Debt (Exhibit C) and Statement of Cash Flows (Exhibit D). The District also includes a number of schedules for additional reference. It is important to note that there are differences between the presentation in these financial statements and the annual Metro Vancouver budget, which is prepared to determine the annual revenue requirements to meet expenditure obligations. These differences are outlined in note 17 of the consolidated statements.

The complete set of 2017 Audited Financial Statements is attached. These are presented for the Boards' approval and include:

- Audited 2017 Consolidated Financial Statements for the Metro Vancouver Regional District
- Audited 2017 Financial Statements for the Greater Vancouver Sewerage and Drainage District
- Audited 2017 Financial Statements for the Greater Vancouver Water District
- Audited 2017 Financial Statements for the Metro Vancouver Housing Corporation

The consolidated financial statements combine the accounts of the Metro Vancouver Regional District, Greater Vancouver Sewerage and Drainage District, Greater Vancouver Water District and the Metro Vancouver Housing Corporation.

To highlight the information presented in these financial statements, the following provides relevant explanations pertaining to the Summarized Consolidated Statement of Financial Position (Appendix 1) and the Consolidated Statement of Operations (Appendix 2). These two statements are the foundation of the audited financial statements. They are similar to the Balance Sheet and Income Statement in private organizations.

Summarized Consolidated Statement of Financial Position

The purpose of the Consolidated Statement of Financial Position (Appendix 1) is to present the organization’s assets, liabilities, net debt position and accumulated surplus or equity position. The accumulated surplus could also be interpreted as the net worth of the organization.

Relevant explanations pertaining to the Summarized Consolidated Statement of Financial Position are as follows:

Accumulated surplus

The key performance indicator on Statement of Financial Position is the Accumulated Surplus. The accumulated surplus for the District is favourable at \$4.1 billion, which indicates that the organization owns (Financial and Non-Financial Assets) more than it owes (Liabilities). This amount is often referred to in private organizations as “Net Worth”, and reflects the member municipalities’ net investment in the District’s consolidated entity. It comprises reserve balances of \$3.5 million and the investment in non-financial assets (assets less debt owing) of \$3.8 billion.

The accumulated surplus increased by \$230.2 million in 2017 which represents the annual surplus for the year, calculated as the difference between revenues and expenses and detailed in Appendix 2. For PSAS purposes, annual surplus does not include contributions to and from reserves, capital contributions or principal payments on long-term debt.

Financial Assets

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments consist of cash and both long and short-term investments. The 2017 balance was significantly higher than 2016 as a result of favourable operating results and due to a \$193.0 million grant received from the Province for the construction of the new North Shore Wastewater Treatment plant.

Accounts Receivable

Accounts receivable are amounts due through the normal course of District business and are net of any allowance for doubtful accounts which is minimal. The balance at December 31, 2017 comprises tipping fees due from commercial solid waste haulers, development cost charge (DCC) income, industrial sewer charges from commercial

customers and payments due from our member municipalities for water sales. The amount is higher than 2016, primarily due to the timing of receipts.

Asset held for sale

At December 31, 2017, Metro Vancouver’s two former head office properties were available for sale, as a result, the net book value (historical cost less accumulated depreciation) of the properties has been transferred from non-financial assets (tangible capital assets) to financial assets.

Debt Reserve Fund

The debt reserve fund represents the amount required, under agreement with the Municipal Finance Authority (MFA), as security for debt service obligations related to MFA debentures issued to the Districts and its members. This represents 1% of the debenture issues. These amounts are refundable, with interest, upon debenture maturity. This balance fluctuates upward with new debt issues and downward as issues mature. The total debt reserve fund balance can be segregated into two components:

- 1) Member Municipalities and Translink (\$37.2 million) - This amount is the related to debt service obligations for these organizations and is fully refundable to them. Therefore, it has no impact on Metro Vancouver’s financial position.
- 2) Metro Vancouver (\$19.7 million) related to debt incurred to fund infrastructure.

Liabilities

Accounts Payable and Other Liabilities

Accounts payable and other liabilities consists of amounts owing:

- to suppliers for goods received and services rendered, primarily those relating to capital projects;
- to employees for future benefits which represent the potential payments to employees of entitled benefits, such as banked vacation;
- to MFA and mortgage providers for interest accrued on debt; and
- for the District’s share of landfill closure and post closure costs at the Vancouver and Cache Creek landfills.

The increase of \$23.4 million is mostly a result of:

- \$20.6 million in construction holdbacks and trade payables as a result of the increase in capital project spending from \$237.3 million in 2016 to \$321.0 million in 2017;
- \$1.0 million in contaminated sites and landfill liability mainly due changes in assumptions associated with the Vancouver landfill and;
- \$2.1 million for estimated costs to remediate contaminated soils for two properties in GVWD, which is expected to be substantially completed in 2018.

*Deferred
Revenue and
Refundable
Deposits*

Deferred revenue and refundable deposits include:

- \$287.7 million of restricted funds raised through the collection of development cost charges (DCC's) which will be used to fund future liquid waste growth capital projects;
- \$195.9 million for Provincial grant associated with the construction of the new North Shore Wastewater Treatment plant;
- \$6.5 million of restricted funds in MVHC which will be used for the replacement of equipment and specified building components and to offset future operating deficits in specific programs;
- \$2.4 million in security deposits in MVHC and Parks; and
- \$4.7 million from miscellaneous deferred grants and revenues in the Regional District.

The increase during the year is due mainly to the Provincial grant for the North Shore Wastewater Treatment Plant and additional DCC revenues collected and related interest earned.

Debt

Debt, net of sinking funds reflects the amount of long term borrowing outstanding at the end of 2017. Sinking funds consist of principal payments made over the term of the debt issue. These payments are invested which along with the interest earned will offset the debt repayment at maturity.

*TransLink and
Member
Municipalities*

The debt owing to MFA for TransLink and member municipalities reflects borrowing on behalf of these entities to fund major capital projects. The amount is completely offset reflecting the fact that these entities are responsible for the debt. Therefore, the impact on Metro Vancouver's financial position is nil.

Overall debt for these entities decreased by \$14.2 million. New long term borrowing during the year totaled \$80.5 million relating to debt borrowed by Langley Township (\$66.0 million), City of White Rock (\$8.3 million), District of West Vancouver (\$5.7 million) and the Village of Lions Bay (\$.5 million). This increase is offset by debt and sinking fund payments of \$58.6 million and sinking fund interest earned of \$36.1 million. In addition, there was \$138.4 million in debt maturities with an equal offsetting amount of sinking fund retirements.

*Metro
Vancouver*

The debt owing on behalf of the Metro Vancouver Districts and Metro Vancouver Housing Corporation reflects borrowing to fund major infrastructure projects. The net amount owing for Metro Vancouver at the end of 2017 is \$955.0 million. To put this in context, Metro Vancouver has tangible capital assets of \$4.8 billion and an

investment in non-financial assets (assets less debt owing) of \$3.8 billion.

The debt increased by \$39.6 million. New long term borrowing was \$150.0 million borrowed on behalf of GVS&DD (\$100.0 million) and GVWD (\$50.0 million). This increase is offset by debt and sinking fund payments of \$85.4 million and sinking fund interest earned of \$25.0 million. In addition, there was \$10.7 million in debt maturities with an equal offsetting amount of sinking fund retirements.

Net Debt

The net debt position indicates the amount by which the organizations' liabilities exceed the financial assets. Although the amount appears as unfavourable, the vast majority of the organization's liabilities are long-term debt which is repayable over several years. The organization's financial assets are more than sufficient to offset the amount of short-term obligations. The current ratio which is current assets divided by current liabilities and is a measure of an organization's liquidity is 5.2 to 1. A ratio of 2 to 1 is considered to be a measure of favourable liquidity.

Despite the increase in tangible capital assets of \$321 million, the net debt position decreased by \$13.8 million, which indicates that more of the District's investment in capital infrastructure is being funded through operations and reserves rather than debt. Overall, the net debt position has been decreasing over the years (\$634.4 million in 2017 versus \$731.4 million in 2010).

Non-Financial Assets

Non-financial assets represent the value of tangible capital assets, inventories of supplies held by the organization, the prepaid portion of land leases on housing properties, and prepaid expenses for items such as insurance.

The Tangible Capital Assets balance represents the historical cost of the asset less accumulated amortization. The increase in 2017 is the direct result of the capital expenditures made during the year, the majority of which were for water and sewer infrastructure projects.

Consolidated Statement of Operations

The Consolidated Statement of Operations (Appendix 2) identifies the results of the organization's financial activities for the year by presenting revenues less expenses, which is the annual surplus. This statement consolidates the revenues and expenses of the Districts' and MVHC.

The annual surplus of \$230.2 million serves as the 2017 addition to the organization's overall accumulated surplus position or net worth of \$4.1 billion. The accumulated surplus in this statement is also articulated in the Summarized Consolidated Statement of Financial Position and Equity (Appendix 1).

As noted above, the annual surplus as presented under PSAS is different from the annual surplus as determined in the context of the annual budget. The primary difference is that PSAS excludes contributions to and from reserves as well as capital contributions and principal payments on long term debt. These excluded items form a significant part of the annual approved budget. To put this difference in context, the 2017 surplus consistent with the budget is \$44.2 million.

Relevant explanations pertaining to the Consolidated Statement of Operations are as follows:

Revenues

<i>Metered Sale of Water</i>	Metered water sales for 2017 was higher \$2.8 million higher than anticipated due to slightly higher increase in consumption and \$13.3 million higher than prior year as a result of the higher consumption and increase in rates of 3.1%.
<i>Tipping fees</i>	Tipping fee revenues in Solid Waste were \$13.2 million higher than expected, due primarily to higher than expected waste flows in the system during 2017.
<i>Development cost charges</i>	Development cost charges applied against growth capital projects are lower than budget due to debt service costs on growth capital expenditures being less than budget.
<i>Property Rentals</i>	Property rentals in the Housing Corporation were higher than budget and prior year due to lower vacancy rates and rental rates achieved were higher than expected.
<i>Grants and other contributions</i>	Grants and other contributions of \$9.2 million include subsidies and contributions received by MVHC (\$8.4 million), grants in-lieu of taxes (\$0.6 million) and miscellaneous grants received in Parks and Regional functions (\$.2 million). The amount is higher than budget mainly due to funds related to MVHC's Section 27 properties no longer being restricted and recognized as revenue. Grants were lower than prior year due to a one-time asset granted to Parks in 2016.
<i>User fees, recoveries and other revenue</i>	User fees, recoveries and other revenue were \$11.5 million higher than budget mainly in GVS&DD and GVWD as a result of higher amounts received for cost sharing recoveries related to capital projects and amounts received for commercial leases and rentals that were not anticipated during budget preparation.
<i>Sinking fund Income and interest income</i>	Sinking fund income and interest income pertains to Metro Vancouver sinking funds and investments balances. The income is \$7.7 million higher than anticipated and \$3.6 million higher than 2016, mainly due to higher reserve balances due to favourable operational results and because of the \$193 million grant received from the Province in 2017 for the construction of the new North

Shore Wastewater Treatment plant, which has resulted in higher than anticipated cash and investment balances during the year.

Sinking fund income, member and TransLink

Sinking fund income, member and TransLink relates to income earned on sinking funds for debt incurred on behalf of these organizations. This income, although recognized in the Financial Statements, is income attributed to the other organizations. There is an offsetting item under expenses, so the net impact to Metro Vancouver is nil.

Expenses

Details relating to the various expenses can be reviewed in a separate report titled "2017 Financial Results Year-End".

ALTERNATIVES

These financial statements are a statutory requirement prepared in accordance to specific accounting principles. No alternatives are presented.

FINANCIAL IMPLICATIONS

There are no financial implications relative to the approval of the Audited 2017 Financial Statements.

SUMMARY / CONCLUSION

The financial statements are part of the legislated reporting requirements for 2017 and staff recommends their approval. As noted in the Auditors' Report, it is the Auditors' opinion that these Financial Statements present fairly the financial position of the Metro Vancouver Districts and the Metro Vancouver Housing Corporation as of December 31, 2017, and the results of their financial activities and changes in their financial position for the year then ended in accordance with Canadian public sector accounting standards.

Attachments:

- Appendix 1 - Summarized Consolidated Statement of Financial Position
- Appendix 2 - Consolidated Statement of Operations
- Attachment 1 - ~~Metro Vancouver Districts, and Metro Vancouver Housing Corporation Financial Statements for the year ended December 31, 2017~~
(Only MVHC Financial Statements attached.)

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METRO VANCOUVER REGIONAL DISTRICT

Summarized Consolidated Statement of Financial Position

Year ended December 31, 2017

	2017	2016
Financial Assets		
Cash, cash equivalents and investments	\$ 830,609,114	\$ 568,733,544
Accounts receivable	107,159,964	98,012,317
Asset held for sale	22,850,898	-
Debt reserve fund		
Total debt reserve fund	56,874,264	56,785,649
Less Debt reserve fund, member municipalities and Translink	(37,220,722)	(38,808,653)
Debt reserve fund, Metro Vancouver Districts	19,653,542	17,976,996
	980,273,518	684,722,857
Liabilities		
Accounts payable and other liabilities	183,709,199	160,292,061
Less accrued interest on debt (included in debt below)	(20,725,606)	(20,472,302)
Accounts payable and other liabilities	162,983,593	139,819,759
Deferred revenue and refundable deposits	497,220,962	277,688,704
Debt, Translink and member municipalities		
Total debt, Translink and member municipalities	1,680,758,864	1,743,414,082
Accrued interest on debt	10,925,277	11,030,999
Less sinking funds	(640,441,917)	(688,990,924)
	1,051,242,224	1,065,454,157
Due from Translink and member municipalities	(1,051,242,224)	(1,065,454,157)
	-	-
Debt, Metro Vancouver		
Total debt, Metro Vancouver	1,576,561,985	1,452,174,975
Accrued interest on debt	9,800,329	9,441,303
Less sinking funds	(631,327,999)	(546,138,604)
	955,034,315	915,477,674
	1,615,238,870	1,332,986,137
Net Debt	(634,965,352)	(648,263,280)
Non-Financial Assets		
Tangible capital assets	4,765,487,071	4,549,205,879
Prepays and inventories	17,433,295	16,845,724
	4,782,920,366	4,566,051,603
Accumulated Surplus (Equity)	\$ 4,147,955,014	\$ 3,917,788,323
Accumulated Surplus (Equity), beginning of year	\$ 3,917,788,323	\$ 3,724,397,631
Revenue	798,819,258	750,125,904
Expenses	568,652,567	556,735,212
Annual surplus	230,166,691	193,390,692
Accumulated Surplus (Equity), end of year	\$ 4,147,955,014	\$ 3,917,788,323
Accumulated Surplus (Equity) consists of		
Reserves	349,179,450	318,422,260
Non-financial assets (net of debt and capital funds)	3,798,775,564	3,599,366,063
	\$ 4,147,955,014	\$ 3,917,788,323

METRO VANCOUVER REGIONAL DISTRICT

Consolidated Statement of Operations

Year ended December 31, 2017

	2017 Budget	2017 Actual	2016 Actual
Revenue			
MVRD property tax requisitions	\$ 52,242,244	\$ 52,242,244	\$ 49,226,433
Metered sale of water	261,710,765	264,484,281	251,217,868
Sewerage and drainage levy	213,889,658	213,889,658	200,250,619
Tipping fees	85,373,222	98,635,607	93,504,371
BODTSS industrial charges	8,658,686	9,838,338	8,495,783
Steam and electricity sales	5,719,900	5,642,942	5,796,681
Development cost charges	6,809,038	5,201,933	6,045,889
Trucked liquid waste fees	1,002,175	1,042,436	1,023,542
Source control fees	1,402,066	1,458,531	1,178,808
Housing property rentals	36,761,446	38,566,301	36,828,554
Grants and other contributions	7,689,701	9,235,091	11,841,641
User fees, recoveries and other revenue	23,882,051	35,353,379	25,586,191
Sinking fund and interest income	24,749,598	32,459,266	28,837,639
Sinking fund income, members and TransLink	22,607,356	30,769,251	30,291,885
	752,497,906	798,819,258	750,125,904
Expenses			
Sewer operations	166,973,031	149,853,456	146,263,323
Waste disposal, recycling and regulatory services	90,774,138	97,562,427	99,837,146
Water operations	151,107,960	134,984,262	129,011,787
Building operations	20,108,121	16,759,703	13,199,312
Housing rental operations	34,149,846	26,325,365	34,119,770
General government services	5,023,578	4,424,441	3,360,879
Regional parks	29,394,759	28,376,649	27,077,972
Air quality	8,725,075	8,655,317	7,386,300
Labour relations	2,409,741	2,128,059	1,949,153
911 emergency telephone system	4,105,760	4,102,857	4,019,816
Electoral areas	384,405	274,917	396,399
Regional global positioning system	308,296	195,237	481,831
Sasamat volunteer fire department	276,496	245,651	193,903
Regional planning	3,535,156	2,586,165	2,664,939
Integrated Partnership for Regional Emergency Management	382,000	323,344	313,292
Corporate costs	49,835,409	50,013,047	47,441,583
Sinking fund income attributed to members and TransLink	22,607,356	30,769,251	30,291,885
	600,512,872	568,652,567	556,735,212
Annual surplus	151,985,034	230,166,691	193,390,692
Accumulated surplus, beginning of year	3,917,788,323	3,917,788,323	3,724,397,631
Accumulated surplus, end of year	\$ 4,069,773,357	\$ 4,147,955,014	\$ 3,917,788,323

Financial Statements of

**METRO VANCOUVER
HOUSING CORPORATION**

Year ended December 31, 2017

DRAFT - April 4, 2018

METRO VANCOUVER HOUSING CORPORATION

Index to Financial Statements

December 31, 2017

	Exhibit
Independent Auditor's Report	
Management Report	
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Notes to Financial Statements	

	Schedule
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Unaudited Schedules of:

Operating Fund	1
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Independent Auditor's Report

To the members of the Board of Directors of the Metro Vancouver Housing Corporation

We have audited the accompanying financial statements of the Metro Vancouver Housing Corporation, which comprise the Statement Financial Position as at December 31, 2017, and the Statements of Operations, Change in Net Debt and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Metro Vancouver Housing Corporation as at December 31, 2017 and the results of its operations, change in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

Vancouver, British Columbia

April 27, 2018

METRO VANCOUVER HOUSING CORPORATION (“MVHC”)

MANAGEMENT REPORT

The Financial Statements contained in this report have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management’s responsibility. Management is responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The Board of Directors is responsible for approving the financial statements and for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The external auditors, BDO Canada LLP, conduct an independent examination, in accordance with Canadian Auditing Standards, and express their opinion on the financial statements. Their examination does not relate to the other schedules and statements required by the *Financial Information Act*. The Independent Auditor’s Report outlines the scope of the audit for the year ended December 31, 2017.

On behalf of Metro Vancouver Housing Corporation.

Phil Trotzuk, Chief Financial Officer

Date: April 27, 2018

METRO VANCOUVER HOUSING CORPORATION

Exhibit A

Statement of Financial Position

Year ended December 31, 2017

	2017	2016
Financial Assets		
Accounts receivable	\$ 369,052	\$ 355,888
Due from British Columbia Housing Management Commission	-	124,379
Due from Metro Vancouver Regional District	36,274,219	28,373,769
	<u>36,643,271</u>	<u>28,854,036</u>
Liabilities		
Accounts payable and accrued liabilities (note 3)	2,990,775	2,903,291
Deferred revenue and refundable deposits (note 4)	8,649,038	14,078,072
Mortgages and debentures payable (note 5)	59,648,400	68,984,971
	<u>71,288,213</u>	<u>85,966,334</u>
Net Debt	(34,644,942)	(57,112,298)
Non-Financial Assets		
Tangible capital assets (note 6)	80,617,831	82,705,874
Prepaid land leases (note 7)	5,841,498	6,036,297
Prepaid expenses	435,899	421,697
	<u>86,895,228</u>	<u>89,163,868</u>
Accumulated surplus (note 8)	\$ 52,250,286	\$ 32,051,570

Contingencies (note 9)

The accompanying notes are an integral part of these financial statements.

Director

Director

METRO VANCOUVER HOUSING CORPORATION

Exhibit B

Statement of Operations

Year ended December 31, 2017

	2017 Budget (note 10)	2017 Actual	2016 Actual
Revenue			
Property rental	\$ 36,761,446	\$ 38,566,301	\$ 36,828,554
Contributions:			
Canada Mortgage and Housing Corporation	1,877,089	1,698,475	2,398,553
British Columbia Housing Management Commission	1,444,200	1,217,066	1,394,270
Restricted contributions	3,382,578	5,444,143	1,907,035
Interest income	433,670	392,630	452,493
Other revenues	1,057,078	7,660,968	1,227,982
	44,956,061	54,979,583	44,208,887
Expenses			
Asset repairs and maintenance	14,865,867	11,711,414	13,836,924
Amortization of tangible assets and prepaid land leases	3,587,314	3,771,029	5,108,641
Utilities, permits and taxes	6,617,434	6,129,533	6,027,658
Salaries and benefits	5,592,554	5,134,180	5,612,353
Interest and fees on long-term debt	2,278,690	2,601,387	2,652,652
Corporate costs	4,124,906	4,124,930	2,084,426
Consulting, contracted and professional services	359,300	604,420	489,352
Other	688,935	641,912	530,801
Materials and supplies	185,831	62,062	69,839
	38,300,831	34,780,867	36,412,646
Annual surplus	6,655,230	20,198,716	7,796,241
Accumulated surplus, beginning of year	32,051,570	32,051,570	24,255,329
Accumulated surplus, end of year	\$ 38,706,800	\$ 52,250,286	\$ 32,051,570

The accompanying notes are an integral part of these financial statements.

METRO VANCOUVER HOUSING CORPORATION

Exhibit C

Statement of Change in Net Debt

Year ended December 31, 2017

	2017 Budget (note 10)	2017 Actual	2016 Actual
Annual surplus	\$ 6,655,230	\$ 20,198,716	\$ 7,796,241
Change in tangible capital assets			
Acquisition of tangible capital assets	(5,650,000)	(1,488,187)	(1,175,559)
Amortization of tangible capital assets	3,587,314	3,576,230	4,913,842
	(2,062,686)	2,088,043	3,738,283
Change in other non-financial assets			
Payment of prepaid expenses	-	(435,899)	(421,697)
Use of prepaid expenses	-	421,697	388,689
Amortization of prepaid land leases	194,799	194,799	194,799
	194,799	180,597	161,791
Change in net debt	4,787,343	22,467,356	11,696,315
Net debt, beginning of year	(57,112,298)	(57,112,298)	(68,808,613)
Net debt, end of year	\$ (52,324,955)	\$ (34,644,942)	\$ (57,112,298)

The accompanying notes are an integral part of these financial statements.

METRO VANCOUVER HOUSING CORPORATION

Exhibit D

Statement of Cash Flows

Year ended December 31, 2017

	2017	2016
Cash provided by (used in):		
Operating transactions:		
Annual surplus	\$ 20,198,716	\$ 7,796,241
Items not involving cash		
Amortization of tangible capital assets	3,576,230	4,913,842
Amortization of prepaid land leases	194,799	194,799
Change in non-cash assets and liabilities		
Accounts receivable	(13,164)	155
Due from British Columbia Housing Management Commission	124,379	(84,083)
Accounts payable and accrued liabilities	87,484	178,917
Deferred revenue and refundable deposits	(5,429,034)	(1,836,102)
Prepaid expenses	(14,202)	(33,008)
Net change in cash from operating transactions	18,725,208	11,130,761
Capital transactions:		
Acquisition of tangible capital assets	(1,488,187)	(1,175,559)
Net change in cash from capital transactions	(1,488,187)	(1,175,559)
Financing transactions:		
Due from Metro Vancouver Regional District	(7,900,450)	2,764,371
Mortgages issued	599,689	-
Principal repayments on mortgages and debentures	(9,936,260)	(12,719,573)
Net change in cash from financing transactions	(17,237,021)	(9,955,202)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 1

Year ended December 31, 2017

1. Significant Accounting Policies

The Metro Vancouver Housing Corporation (“MVHC” or the “Corporation”) is a wholly-owned subsidiary of the Metro Vancouver Regional District (“MVRD”).

The MVHC is incorporated under the Business Corporations Act (British Columbia) as a not-for-profit corporation for the purpose of supplying public rental accommodation, and is exempt from income taxes.

The Corporation’s financial statements are prepared by management in accordance with Canadian public sector accounting standards (“PSAS”). Significant accounting policies adopted by the MVHC are as follows:

Basis of Accounting The Corporation follows the accrual method of accounting for revenue and expenses. Revenue is normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and/or the legal obligation to pay.

Government Transfers Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. The transfer of revenue is initially deferred and then recognized in the statement of operations as the stipulation liabilities are settled.

When the Corporation is deemed the transferor, the transfer expense is recognized when the recipient is authorized and has met the eligibility criteria.

Deferred Revenue, Refundable Deposits and Restricted Funds Deferred revenues represent tenant security deposits, restricted contributions and revenues, and rental income which have been collected, but which the related services or obligations have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed or obligations have been met.

Amounts received under the following programs have been recorded as deferred revenue:

- i) Section 27 Rental Operations: In 2017, MVHC optioned an early payout of five mortgages related to Section 27 agreements with British Columbia Housing Management Commission (“BCHMC”); as a result funds related to Section 27 projects were no longer restricted.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 2

Year ended December 31, 2017

1. Significant Accounting Policies (continued)

Deferred Revenue, Refundable Deposits and Restricted Funds (continued)

ii) Section 95 Rental Subsidy: Pursuant to Section 95 of the National Housing Act ("NHA"), a portion of the funds received from rental operations to a cumulative maximum of \$500 per unit, are restricted and can only be used by MVHC according to the terms of the agreement with BCHMC. The amounts are recorded as deferred revenue and used when expenditures exceed revenue in the program.

iii) Replacement Projects: Under operating agreements entered into with Canada Mortgage and Housing Corporation ("CMHC") and administered by BCHMC, a portion of the funds received from rental operations are restricted for the replacement of equipment and specified building components. These funds are deferred until spent on approved items.

In accordance with the original CMHC agreements (Section 95), from the inception of a project, a maximum of 1% per annum of the original construction cost of the building is restricted and recorded as deferred revenue. With the administrative approval of BCHMC, the potential of restricted contributions may be adjusted from time to time based on an asset life cycle analysis. Expenditures funded from deferred revenue are periodically reviewed by BCHMC, and are restricted to the replacement of equipment and specified building components.

In accordance with BCHMC agreements (Homes BC and Seniors project), any receipts in excess of expenses are restricted for approved projected capital repairs and replacements for each project. These revenues are deferred until spent on approved items.

Interest Income

Interest income is reported as revenue in the period earned. When required, based on external requirements, interest income earned on deferred revenue and refundable deposits is added to and forms part of the deferred revenue and refundable deposit balance.

Cash and Investments

In order to improve cash management, the general practice of the Metro Vancouver Districts and MVHC is to accumulate cash and investment transactions in pooled accounts held by the MVRD. Investments held by the MVRD consist of bonds issued by governments and Canadian chartered banks, money market instruments, guaranteed investment certificates and term deposits. Interest earned on MVHC's fund balances is included in the amount owing from MVRD and is recorded as interest income in the Statement of Operations.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 3

Year ended December 31, 2017

1. Significant Accounting Policies (continued)

Employee Future Benefits Employees who provide services for MVHC are employees of the MVRD. Employee related costs are allocated by the MVRD to MVHC based on services rendered. These costs are shown as expenses in the financial statements and are included in amounts owing from MVRD.

Post-employment benefits of the MVRD, including accumulated banked sick and vacation pay, retirement severance and Worker's Compensation top-up benefits for employees pursuant to certain policies and union agreements, are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligation under these benefit plans is allocated to MVHC based on projected benefits as the employees render services necessary to earn the future benefits and included in amounts owing to the MVRD.

Non-financial assets Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Tangible Capital Assets Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight line basis over the estimated useful lives of the assets as follows:

Asset	Useful Life - Years
Buildings	
• Manor House and Regal Hotel	25
• Other buildings	35
• Furniture and fixtures	6 - 10

1) Annual amortization:

Annual amortization begins when the asset is put into service and is expensed over its useful life. Assets under construction are transferred to the appropriate asset class and are amortized from the date the asset is put into productive use.

2) Interest capitalization:

The MVHC capitalizes, at cost, all housing rental property expenditures, including interest and property taxes incurred to the date of completion of the project.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 4

Year ended December 31, 2017

1. Significant accounting policies (continued)

Non-financial assets (continued)

Prepaid Land Leases Prepaid land leases are recorded at historical cost less accumulated amortization. Upon expiration of the lease contract, the property will revert to the lessor. Prepaid land leases are amortized on a straight-line basis over the lease term.

Financial Instruments

Financial instruments are recorded at fair value on initial recognition. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Statement of Operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses.

When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Operations.

There are no financial instruments carried at fair value as at year end and as a result, the statement of remeasurement gains and losses has not been prepared.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 5

Year ended December 31, 2017

1. Significant Accounting Policies (continued)

Functional and Segmented Presentation of Revenue and Expenses	<p>A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. Management believes that MVHC's activities comprise of only one segment and hence no additional disclosure is required. Furthermore, as the operations of MVHC are comprised of a single function, supply of public rental accommodation, the Statement of Operations presents revenue and expenses by object.</p>
Revenue Recognition	<p>Property rental income, contributions and other revenues are recognized as revenue on an accrual basis. Housing property rental revenue is recognized over the rental period once the tenant commences occupancy, rent is due and collection is assured. Annual property rental increases are based on rates established by provincial tenancy legislation. Contributions from CMHC and BCHMC are based on provisions set in agreements and outlined in Note 2.</p>
Liability for Contaminated Sites	<p>A liability for remediation of a contaminated site is recognized when the site is no longer in productive use and the following criteria are satisfied; an environmental standard exists; contamination exceeds the standard; MVHC is either directly responsible or has accepted responsibility for remediation; it is expected that future economic benefits will be given up and a reasonable estimate of the liability can be made.</p>
Use of Estimates	<p>The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of contingent liabilities, in the financial statements. These estimates and assumptions are based on management's best information and judgment and may differ from actual results. Adjustments, if any, will be reflected in the financial statements in the period that the change in estimate is made, as well as in the period of settlement if the amount is different.</p> <p>Significant areas requiring the use of management's judgment relate to the determination of accrued liabilities and contaminated sites liabilities, the amortization rates of tangible capital assets and the assessment of all contingencies.</p>

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 6

Year ended December 31, 2017

2. Senior Government Assistance

BCHMC is the administrator and provides the related government assistance for all of MVHC's Federal programs (Section 95) and Provincial operating agreements (Homes BC and Seniors programs). In 2007, CMHC devolved its operations relating to the MVHC's federal programs to BCHMC, which provides BCHMC with the authority to manage MVHC's federal programs.

Details of senior government assistance are as follows:

BCHMC Umbrella Agreement The MVHC entered into an agreement with BCHMC commencing January 1, 2013, with a term of five years, expiring January 1, 2018, which consolidates the following five distinct housing programs under one agreement (the "Umbrella Agreement") – Section 95, Federal/Provincial Seniors, Homes BC, Homes BC – Homeless at Risk and the one Section 82.1(a) Disabled program (Guildford Glen).

A fixed amount of assistance is provided monthly, in advance, as prescribed by BCHMC. Under terms of the agreement, the monthly fixed funding payment may be adjusted as a result of changes in mortgage payments, mortgage expiration or maturity, the removal of a project from the portfolio or by mutual agreement between MVHC and BCHMC.

CMHC financing assistance on NHA Section 27 projects In 2017, MVHC optioned an early payout of the five mortgages under Section 27 projects, in the amount of \$5,909,096, and refinanced the debt from MVRD at the variable internal interest rate. One condition of the early payout resulted in an expense of \$599,689 relating to the loss of future CMHC financing assistance for those properties; this has been included as an expense in the Statement of Operations.

CMHC mortgage insurance Pursuant to Section 6 of the NHA, CMHC has undertaken to insure mortgages payable by the MVHC.

NHA Section 82.1(a) and 82.1(b) subsidy Rental supplements are authorized under Section 82.1(a) and 82.1(b) of the NHA and are funded jointly by BCHMC on behalf of the both the Federal Government and the Province of British Columbia.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 7

Year ended December 31, 2017

3. Accounts Payable and Accrued Liabilities

	2017	2016
Trade accounts	\$ 2,850,143	\$ 2,291,174
Accrued interest on mortgages and debenture debt	122,625	601,881
Other	18,007	10,236
	<u>\$ 2,990,775</u>	<u>\$ 2,903,291</u>

4. Deferred Revenue and Refundable Deposits

	2017	2016
Externally restricted funds:		
Rental operations:		
Programs under BCHMC Umbrella Agreement	\$ 1,834,915	\$ 1,799,364
Section 27 rental operations	-	3,473,106
Replacement provisions:		
Programs under BCHMC Umbrella Agreement	4,656,334	3,818,449
Section 27	-	2,844,473
	<u>6,491,249</u>	<u>11,935,392</u>
MVHC tenant security deposits	1,946,701	1,906,906
Rent and subsidies received in advance	211,088	235,774
	<u>\$ 8,649,038</u>	<u>\$ 14,078,072</u>

	2017	2016
Balance, beginning of year	\$ 14,078,072	\$ 15,914,174
Net increase from unspent operating funds	3,968,619	1,844,369
Contributions received for capital replacement	1,823,140	1,793,897
Contributions used and recognized as revenue	(4,918,323)	(5,545,300)
Transfer of Section 27 to MVHC reserves	(6,317,579)	-
	<u>(5,444,143)</u>	<u>(1,907,034)</u>
Change in security deposits and prepaid rents	15,109	70,932
	<u>15,109</u>	<u>(1,836,102)</u>
Balance, end of year	<u>\$ 8,649,038</u>	<u>\$ 14,078,072</u>

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 8

Year ended December 31, 2017

5. Mortgages and Debentures Payable

- a) MVHC's mortgages for Cedarwood, Crown Manor, Earle Adams, Euclid Square, Grandview Gardens, Kelly Court, Manor House Regal Hotel and Semlin Terrace are financed through the MVRD at MVRD's internal variable rate which was 1.92% in 2017 (2016 – 2.00%).
- b) Mortgages, upon renewal, are expected to be renegotiated on a long-term basis. Annual principal repayments with and without renewal are as follows:

	Assuming no renewal of mortgages	Assuming long term renewal of mortgages
2018	9,927,315	6,964,320
2019	12,480,518	4,421,906
2020	7,913,919	3,202,027
2021	8,190,372	3,186,254
2022	1,814,981	3,263,129
Thereafter	19,321,295	38,610,764
	<u>\$ 59,648,400</u>	<u>\$ 59,648,400</u>

- c) Mortgages payable with respect to projects constructed pursuant to Section 95 of the NHA are collateralized by specific charges on rental properties as well as a general assignment of rents and a chattel mortgage on the fixtures and equipment. Properties funded by BCHMC mortgages are collateralized by a general assignment of rents and the benefit of all covenants and agreements included in any lease.
- d) Mortgages reported on the Statement of Financial Position comprises the following and includes varying maturities up to 2038 with interest rates ranging from 1.0% to 4.87%.

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 9

Year ended December 31, 2017

5. Mortgages and Debentures Payable (continued)

Rental Property	Interest Rate - %	Renewal Date	Expected Maturity Date	2017	2016
NHA Section 95 projects:					
Mortgages payable:					
Adelaide Court	3.68		September 1, 2017	\$ -	\$ 226,789
Ashdown Gardens	3.68		December 1, 2017	-	163,780
Eastburn Square	1.03		February 1, 2019	161,799	298,951
Epsom Downs	0.90		July 1, 2017	-	383,952
Evergreen Downs	3.68		December 1, 2017	-	182,744
Greystone Village	1.03		February 1, 2019	563,187	1,040,585
Hemlock Court	1.08		December 1, 2019	212,142	316,514
Knightsbridge I	1.00		March 1, 2018	105,304	523,923
Knightsbridge II	1.03		March 1, 2019	457,473	819,254
London Square	3.68		January 1, 2018	23,698	303,308
Lynden Court	3.68		January 1, 2018	23,910	306,016
Malaspina Village	3.68		October 1, 2017	-	325,939
Maple Vine Court	1.00		April 1, 2018	127,263	506,538
McBride Place	1.08		February 1, 2020	1,014,712	1,475,123
Moffatt Park	1.05		July 1, 2019	181,727	294,961
Moray Place	1.01		May 1, 2018	126,175	426,854
Ozada Village	3.68		August 1, 2017	-	176,981
Pinewood Place	3.68	December 1, 2018	October 1, 2020	688,165	914,599
Ran Beamish Place	1.03		April 1, 2019	828,622	1,442,695
Somerset Gardens I	3.68		August 1, 2017	-	171,652
Somerset Gardens II	3.68		August 1, 2017	-	151,798
Somerset Gardens III	0.90		June 1, 2017	-	161,470
Strathearn Court	1.05		May 1, 2019	672,183	1,140,706
Sutton Place	3.68		October 1, 2017	-	368,678
Tivoli Gardens	0.99		May 1, 2017	-	287,657
Walnut Gardens	1.08		January 1, 2020	278,114	409,410
Total NHA Section 95 projects				5,464,474	12,820,877
NHA Section 27 projects:					
Debentures payable to CMHC:					
Earle Adams Village	8.00		July 1, 2028	-	2,550,937
Euclid Square	8.00		September 1, 2028	-	749,330
Grandview Gardens	8.00		September 1, 2026	-	511,828
Kelly Court	8.00		January 1, 2029	-	1,035,478
Semlin Terrace	8.00		September 1, 2026	-	736,566
Total NHA section 27 projects				-	5,584,139
Seniors projects:					
Mortgages payable:					
Alderwood Place	3.54	September 1, 2018	July 1, 2027	2,423,190	2,632,289
Cedarwood Place	4.37	March 1, 2018	January 1, 2023	802,199	940,287
Cedarwood Place	internal variable	July 1, 2019	June 1, 2038	4,334,365	4,540,765
Total Seniors projects				7,559,754	8,113,341
Homes BC projects:					
Mortgages payable:					
Chateau de Ville	4.87	June 1, 2027	July 1, 2035	8,148,900	8,438,558
Claude Douglas	2.27	November 1, 2019	November 1, 2036	2,239,905	2,333,764
Fraserwood	3.80	December 1, 2020	December 1, 2035	3,738,670	3,881,202
Inlet Centre Residences	3.89	October 1, 2020	October 1, 2038	6,056,755	6,242,735
Maplewood	2.62	May 1, 2027	May 1, 2037	2,796,275	2,896,622
Odlinwood	2.03	August 1, 2026	August 1, 2036	5,338,012	5,571,087
Total Homes BC projects				28,318,517	29,363,968
MVHC projects:					
Mortgages payable:					
Crown Manor	internal variable	July 15, 2019	July 15, 2038	803,904	842,578
Earle Adams Village	internal variable		January 1, 2027	2,650,745	-
Euclid Square	internal variable		January 1, 2027	778,645	-
Grandview Gardens	internal variable		January 1, 2027	555,699	-
Kelly Court	internal variable		January 1, 2027	1,102,776	-
Manor House	internal variable	March 15, 2019	March 15, 2038	1,346,806	1,411,453
Meridian Village	2.46	September 1, 2026	July 1, 2031	5,957,256	6,322,544
Minato West	3.29	October 1, 2021	October 1, 2031	3,439,245	3,632,868
Regal Place Hotel	internal variable	March 15, 2019	March 15, 2038	478,174	501,127
Semlin Terrace	internal variable		January 1, 2027	821,231	-
St. Andrews Place	3.29	October 1, 2021	October 1, 2031	371,174	392,076
Total MVHC projects				18,305,655	13,102,646
Total mortgages and debentures payable				\$59,648,400	\$68,984,971

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 10

Year ended December 31, 2017

6. Tangible Capital Assets

Year ended December 31, 2017	Cost				Accumulated amortization			Net book value December 31, 2017
	Balance at December 31, 2016	Additions	Disposals	Balance at December 31, 2017	Disposals	Amortization Expense	Balance at December 31, 2017	
Land	\$ 52,274,381	\$ -	\$ -	\$ 52,274,381	\$ -	\$ -	\$ -	\$ 52,274,381
Buildings	194,200,402	-	(2,027,183)	192,173,219	(2,027,183)	3,218,290	168,414,620	23,758,599
Furniture & fixtures	6,000,144	660,949	(279,030)	6,382,063	(279,030)	357,940	4,749,525	1,632,538
Construction in progress	2,125,075	827,238	-	2,952,313	-	-	-	2,952,313
	\$ 254,600,002	\$ 1,488,187	\$ (2,306,213)	\$ 253,781,976	\$ (2,306,213)	\$ 3,576,230	\$ 173,164,145	\$ 80,617,831
Year ended December 31, 2016								
Year ended December 31, 2016	Cost				Accumulated amortization			Net book value December 31, 2016
	Balance at December 31, 2015	Additions	Disposals	Balance at December 31, 2016	Disposals	Amortization Expense	Balance at December 31, 2016	
Land	\$ 52,131,443	\$ 142,938	\$ -	\$ 52,274,381	\$ -	\$ -	\$ -	\$ 52,274,381
Buildings	194,200,402	-	-	194,200,402	-	4,479,383	167,223,513	26,976,889
Furniture & fixtures	5,492,485	842,819	(335,160)	6,000,144	(335,160)	434,459	4,670,615	1,329,529
Construction in progress	1,935,273	189,802	-	2,125,075	-	-	-	2,125,075
	\$ 253,759,603	\$ 1,175,559	\$ (335,160)	\$ 254,600,002	\$ (335,160)	\$ 4,913,842	\$ 171,894,128	\$ 82,705,874

There was no write-down of tangible capital assets during the year (2016 - \$nil).

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 11

Year ended December 31, 2017

7. Prepaid Land Leases

	2017	2016
Balance, beginning of year	\$ 6,036,297	\$ 6,231,096
Amortization	194,799	194,799
Balance, end of year	\$ 5,841,498	\$ 6,036,297

The lease terms for the properties are as follows:

Asset	Lease Expiry Dates	Lease Term (Years)
Buildings		
• Habitat Villa	February 2029	50
• Walnut Gardens	May 2026	42
• Other prepaid land leases	May 2036 to June 2062	60

8. Accumulated Surplus

Accumulated surplus consists of authorized and issued 2,000 common shares with a par value of \$1 per share and individual fund surplus and reserves as follows:

	2017	2016
Reserves	\$ 25,437,357	\$ 12,292,370
Investment in tangible capital assets and land leases	26,810,929	19,757,200
Share capital	2,000	2,000
	\$ 52,250,286	\$ 32,051,570

Continuity of reserves is as follows:

	2017	2016
Balance, beginning of year	\$ 12,292,370	\$ 13,282,620
Interest	371,657	293,784
Contribution from (to) operations	12,540,085	(1,324,060)
Contribution to capital	(827,238)	(189,802)
Annual operating surplus	1,060,483	229,828
	\$ 25,437,357	\$ 12,292,370

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 12

Year ended December 31, 2017

8. Accumulated Surplus (continued)

Investment in tangible capital assets is calculated as follows:

	2017	2016
Tangible capital assets	\$ 80,617,831	\$ 82,705,874
Prepaid land leases	5,841,498	6,063,297
Amounts financed by:		
Long-term debt	(59,648,400)	(68,984,971)
	\$ 26,810,929	\$ 19,757,200

The change in investment in tangible capital assets is as follows:

	2017	2016
Change in the investment in tangible capital assets		
Acquisition of tangible capital assets	\$ 1,488,187	\$ 1,175,559
Amortization of tangible capital assets	(3,576,230)	(4,913,842)
	(2,088,043)	(3,738,283)
Less financing of tangible capital assets		
Payment of long-term debt	(9,936,260)	(12,719,573)
Mortgage from Metro Vancouver Regional District	599,689	-
Amortization of prepaid land leases	194,799	194,799
	(9,141,772)	(12,524,774)
Change in investment in tangible capital assets	7,053,729	8,786,491
Investment in tangible capital assets, beginning of year	19,757,200	10,970,709
Investment in tangible capital assets, end of year	\$ 26,810,929	\$ 19,757,200

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 13

Year ended December 31, 2017

9. Contingencies

Lawsuits	<p>As at December 31, 2017 there were various lawsuits pending against the MVHC arising in the ordinary course of business. The MVHC has retained legal counsel to defend against these lawsuits for which the outcomes are not possible to reasonably determine at this time and therefore no accrual has been recognized. Management is of the opinion that the losses, if any, in connection with these lawsuits can be sufficiently funded by reserve funds or covered by insurance. Any ultimate losses are recorded as expenses at the time the amounts are reasonably determinable.</p>
Self Insurance Fund	<p>A self insurance fund has been established within accumulated surplus of MVRD to cover losses resulting from uninsured liability exposures of the Metro Vancouver Districts and the MVHC.</p> <p>Each year a review is undertaken to determine if it would be beneficial to purchase liability insurance. The MVRD, its related Districts and the MVHC transfer amounts to the reserve depending on the fund's adequacy to cover retained liability risk.</p> <p>An estimate is made for all costs of investigating and settlement of claims incurred annually and an adjustment is made to the fund to maintain an adequate balance to cover potential losses in excess of recorded liabilities. These adjustments are changed as additional information becomes known during the course of claims settlement. Any potential costs would be recorded as an expense of MVHC at the time the losses are known and the amounts are reasonably determinable.</p>
BC Homes Repayable Assistance	<p>Under the Umbrella Agreement with BCHMC, the accumulated balance of the repayable assistance is forgiven on a straight line basis over the term of the agreement. As of December 31, 2017, the repayable assistance balance is \$nil and has been fully forgiven.</p>
BCHMC Umbrella Agreement	<p>Under the terms of the agreements the funding partner performs an annual review of expenditures, and certain expenditures may be considered ineligible. Management is of the opinion that the outcome and amount of an assessment is undeterminable and if any amounts are determined to be ineligible they will be funded from existing reserves in the year of assessment.</p>

METRO VANCOUVER HOUSING CORPORATION

Notes to Financial Statements, page 14

Year ended December 31, 2017

10. Budget Information

The annual budget presented in these financial statements is based upon the 2017 operating and capital budgets approved by the Corporation's Board in October 2016, with additional approval in April 2017 for adjustments to the budget as a result of the 2016 fiscal year end results. The budget is based on operational and capital expenditure requirements and their associated funding. Amortization is a non-cash item that is not funded for budget purposes. Alternatively, PSAS do not allow presentation of fund balances nor the appropriations of accumulated surplus. Therefore, contributions to or from reserves and debt principal repayments are removed from the approved budget for financial statement presentation. The schedule below reconciles the approved budget to the budget figures reported in these financial statements. Capital expenditures of \$5,650,000 were included in the Capital Budget approved by the Board in April 2017.

	2017 Budget
Budgeted annual surplus per Exhibit B	\$ 6,655,230
<u>Additional transfers from reserves, approved by Board April 2017</u>	<u>-</u>
Adjusted annual surplus, based on October approved budget	6,655,230
Items not included in the operating budget	
Amortization of tangible capital assets	3,587,314
Transfer from deferred revenue for replacement	(3,929,108)
Transfer to deferred operating surplus	546,530
Reserve interest	(373,670)
BCHMC operating subsidy	(116,046)
Items included in the budget but not in financial statements	
Capital replacement expenses	6,974,446
Debt principal payments	(10,397,000)
Transfers from (to) reserves	(2,947,696)
Annual surplus per approved budget	\$ -

METRO VANCOUVER HOUSING CORPORATION

Schedule 1

Schedule of Operating Fund (unaudited)

Year ended December 31, 2017

	2017 Budget	2017 Actual	2016 Actual
Revenue			
Property rental	\$ 36,761,446	\$ 38,566,301	\$ 36,828,554
Contributions			
Canada Mortgage and Housing Corporation	1,877,089	1,698,475	2,398,553
British Columbia Housing Management Commission	1,444,200	1,217,066	1,394,270
Restricted contributions	3,382,578	5,444,143	1,907,035
Interest	253,213	20,973	158,709
Other revenues	1,057,078	7,660,968	1,085,044
	<u>44,775,604</u>	<u>54,607,926</u>	<u>43,772,165</u>
Expenses			
Asset repairs and maintenance	14,865,867	11,711,414	13,836,924
Utilities, permits and taxes	6,617,434	6,129,533	6,027,658
Salaries and benefits	5,592,554	5,134,180	5,612,353
Interest on long-term debt	2,278,690	2,001,698	2,652,652
Management fees and net corporate costs	4,124,906	4,124,930	2,084,426
Consulting, contracted and professional services	359,300	604,420	489,352
Materials and supplies	185,831	62,062	69,839
Other	688,935	641,912	530,801
	<u>34,713,517</u>	<u>30,410,149</u>	<u>31,304,005</u>
Annual surplus, operating fund	10,062,087	24,197,777	12,468,160
Application of surplus and transfers			
Mortgages and debt retirement	(10,397,000)	(9,936,260)	(12,719,573)
Transfers from (to):			
Capital	-	(660,949)	(842,819)
Reserve funds for:			
Reserves - operating results	-	(1,660,172)	(229,828)
Reserves	334,913	(11,940,396)	1,324,060
Change in operating fund	-	-	-
Operating fund, beginning of year	-	-	-
Operating fund, end of year	\$ -	\$ -	\$ -

METRO VANCOUVER HOUSING CORPORATION

Schedule 2

Schedule of Capital and Other Funds (unaudited)

Year ended December 31, 2017

	2017 Budget	2017 Actual	2016 Actual
Revenue			
Other income	\$ -	\$ -	142,938
	-	-	142,938
Expenses			
Mortgage Financing Fee related to Section 27 buyout	-	599,689	-
Amortization of tangible capital assets	3,587,314	3,576,230	4,913,842
Amortization of prepaid land lease	194,799	194,799	194,799
Annual deficit, capital fund	(3,782,113)	(4,370,718)	(4,965,703)
Non-financial asset transactions			
Acquisition of tangible capital assets	5,650,000	1,488,187	1,175,559
Amortization of tangible capital assets	(3,587,314)	(3,576,230)	(4,913,842)
	2,062,686	(2,088,043)	(3,738,283)
Financing			
Mortgages issued	-	599,689	-
Transfers from (to):			
Operating fund	-	660,949	842,819
Reserve funds	5,650,000	827,238	189,802
	5,650,000	2,087,876	1,032,621
Non-financial asset transactions and financing	(3,587,314)	(4,175,919)	(4,770,904)
Change in capital and other funds	(194,799)	(194,799)	(194,799)
Capital and other funds balance, beginning of year	6,036,297	6,036,297	6,231,096
Capital and other funds balance, end of year	\$ 5,841,498	\$ 5,841,498	\$ 6,036,297

To: Finance and Intergovernment Committee

From: Phil Trotsuk, Chief Financial Officer

Date: April 11, 2018 Meeting Date: April 20, 2018

Subject: **Operating, Statutory and Discretionary Reserves Policy**

RECOMMENDATION

That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy.”

At its April 11, 2018 meeting, the Performance and Audit Committee adopted the following resolution:

That the Performance and Audit Committee endorse the Operating, Statutory and Discretionary Reserves Policy as presented in the attached report, dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy.”

Attachment

Report dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy”

To: Finance and Intergovernment Committee

From: Phil Trotzuk, Chief Financial Officer

Date: March 28, 2018 Meeting Date: April 20, 2018

Subject: **Operating, Statutory and Discretionary Reserves Policy**

RECOMMENDATION

That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled “Operating, Statutory and Discretionary Reserves Policy.”

PURPOSE

To present for Committee and Board consideration the *Operating, Statutory and Discretionary Reserves Policy* which will guide the establishment, use and management of reserves for Metro Vancouver’s four legal entities and statutory functions.

BACKGROUND

Reserves are an essential component of the financial sustainability of the Metro Vancouver entities. Metro Vancouver has, over the years, consistently followed established practices regarding the establishment, use and management of reserves. During the 2018 to 2022 five year financial planning process there was discussion at several Standing Committee meetings regarding the application of reserves. As part of the 2018 Finance and Intergovernment Committee work plan, staff have been directed to develop a proposed Reserve Policy that will guide the establishment, use and management of reserves for Metro Vancouver’s four legal entities and statutory functions.

This report presents a draft policy for the Committee and Board’s consideration which addresses the three types of reserves that are used within Metro Vancouver – Operating, Statutory and Discretionary Reserves.

METRO VANCOUVER RESERVE STRUCTURE

Metro Vancouver comprises four legal entities, Greater Vancouver Water District (GVWD), Greater Vancouver Sewerage and Drainage District (GVS&DD), Metro Vancouver Housing Corporation (MVHC) and Metro Vancouver Regional District (MVRD) and within the MVRD there are separate statutory functions for Affordable Housing, Air Quality, Electoral Area, General Government, Labour Relations, Regional Global Positioning System (GPS), Regional Parks, Regional Planning, E911 Emergency Telephone Service, Regional Emergency Management and Sasamat Fire Protection Service.

Each are accounted for as separate legal entities. The revenues generated by each entity or function are only permitted to be expended for business operations of that entity or function. Consistent with this, any revenues retained for use in the future (i.e. reserves) are also restricted to the given entity or function. As a result of the Metro Vancouver’s legal structure, reserves must be maintained separately for each entity and function.

PROPOSED POLICY

As part of the *Operating, Statutory and Discretionary Reserves Policy* development process, Metro Vancouver's current process and framework was examined along with practices adopted by other local municipalities within British Columbia such as: City of Victoria, City of Burnaby, Regional District of Nanaimo, Fraser Valley Regional District, City of West Kelowna and District of Mission. The results from the examination indicated that Metro Vancouver's current practice is in line with best practices with the other local municipalities, however, a formalized policy for Metro Vancouver is an appropriate next step to ensure Board oversight in the establishment and management of reserves.

The proposed policy supports the following principles:

- Financial stability, security and sustainability
- Consistent with long term financial plans, Board and Corporate strategic goals
- In accordance with legal requirements under applicable legislation

The policy outlines general requirements that govern Metro Vancouver reserves, which are all reserve contributions and applications must be approved by the Board and that all reserves exclusively belong to a specific legal entity or statutory function and can only be applied to fund business activities of that legal entity or statutory function. Reserves will earn interest annually based on the internal rate of return on investments. Furthermore, Financial Services is responsible for the stewardship and oversight of all Metro Vancouver reserves.

Under this policy, Metro Vancouver will maintain three types of reserves: Operating Reserves, Statutory Reserves and Discretionary Reserves.

OPERATING RESERVES

Operating Reserves are established within the policy for each legal entity and statutory function to serve as a measure of financial security against an unforeseen financial loss, such as a revenue shortfall or unexpected expenditures.

The policy requires that each legal entity and statutory function maintain a minimum level of Operating Reserve as a financial safeguard. The amount of that minimum is based on the inherent risk of incurring a financial loss. The inherent risk is a factor of business volume which can be represented as a percentage of the legal entity and statutory function's prior year's operating expenditures net of reserve contributions, contributions to capital and debt service costs. The risk of an unforeseen financial loss also increases with the volatility associated with the business activity. The greater the volatility, the higher the representative percentage.

The inherent volatility associated with business activity for purposes of determining an appropriate level of operating reserve is assessed as high, moderate or low. The GVWD and the Solid Waste function within the GVS&DD have higher revenue uncertainty as both are based on volume times a unit rate and actual volumes could be adversely impacted by uncontrollable factors. As a result, of this higher potential risk, the policy sets a required Operating Reserve equal to 15% of net operating expenditures representing about 2 months of operations.

The Liquid Waste function within the GVS&DD has moderate risk associated with business activities due primarily to the volume of activity as there is little risk regarding revenues with the primary source being the sewer levy collected from member jurisdictions. The MVHC also has a moderate level of risk. While MVHC is dependent on rental revenues for funding of operations, the vacancy rate is normally quite low and expenditures can be managed should revenue availability dictate such. With a moderate level of risk, the policy sets a required Operating Reserve equal to 10% of net operating expenditures representing about 1 month of operations.

Finally, the functions within the MVRD have low risk relative to business activities. The nature of business activities within these functions are relatively consistent from year to year and the primary revenue source is tax requisitions collected from member jurisdictions. As a result, this policy sets a required Operating Reserve, for each MVRD Statutory function, equal to 5% of net operating expenditures representing about 0.5 of a month of operations.

The minimum Operating Reserve requirements included under this policy can be summarized as follows:

Legal Entity/Function	Minimum Operating Reserve
GVWD	15% of Net Operating
GVS&DD - Solid Waste	15% of Net Operating
GVS&DD - Liquid Waste	10% of Net Operating
MVHC	10% of Net Operating
MVRD	5% of Net Operating

STATUTORY RESERVES

Statutory Reserves are reserves that require a legal framework which governs their composition and application. Statutory Reserves are set aside for a legal entity and statutory function for a specific purpose in accordance with the applicable terms and conditions within the legal framework as follows:

1. **Legal Statute** - required by specific legislation.
2. **A Board Approved Bylaw** - sets out the purpose, sources of funds, uses and management of the specific reserve.
3. **Governing Agreement** - an arrangement with another level of government or entity, in which the terms and conditions of the reserves will be outlined. This involves prescribing the sources of funding, contribution sources, use and management.

Contributions to Statutory Reserves are made through annual budget contributions and the appropriation of the annual surplus generated from operations in accordance with legal statute, the Board approved bylaw, or governing agreement.

DISCRETIONARY RESERVES

Discretionary Reserves are reserves established by the Board for legal entities and statutory functions as follows:

- to meet a known or anticipated future financial obligation, or
- for general future usage.

An important policy requirement is that the usage of Discretionary Reserves will be included, where applicable, within the five-year financial plan. This involves reporting on Discretionary Reserves opening balance, forecasting the contributions, uses and ending balance, which will be included as part of the five year financial planning process.

Appropriation of Annual Surplus

The application of an annual surplus, the excess of revenues over expenditures, once ensuring that all Operating Reserves meet the minimum balances and that all requirements for Statutory and Discretionary Reserves are met, will be prioritized as follows:

1. **Fund capital expenditures or pay down existing debt.**
2. **Fund one-time expenditures.**
3. **Rate stabilization for a legal entity or statutory function.** This involves smoothing out utility rates, levies or tax requisitions resulting from operating budget expenditures. Usage of reserves for rate stabilization is only used in circumstances where priorities 1) and 2) are not applicable, or have been met. This application is discretionary and may not be applicable. If not applicable, then move to priority 4.
4. **Maintain as a Discretionary or Statutory Reserve.** This can represent an addition to an existing Statutory or Discretionary Reserve or the establishment of a new Discretionary Reserve based on new information regarding a future financial obligation.

Management of Reserves

When the Board has approved the use of reserves to fund expenditures, the funding must be spent for the intended purpose within the year of approval, or the following year. If the money has not been spent within the given time frame, the legal entity or statutory function must receive re-approval from the Board to use the reserves.

ALTERNATIVES

1. That the MVRD/GVWD/GVS&DD/MVHC Board approve the *Operating, Statutory and Discretionary Reserves Policy* as presented in the attached report, dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy."
2. That the MVRD/GVWD/GVS&DD/MVHC Board receive for information the report dated March 28, 2018, titled "Operating, Statutory and Discretionary Reserves Policy" and provide alternate direction.

FINANCIAL IMPLICATIONS

If the Board approves alternative one, the minimum Operating Reserve balances for Metro Vancouver entities and functions is projected to be \$50.2 million for 2018 with Solid Waste increasing by 5% or approximately \$4.0 million and the MVHC by approximately \$700,000 which will result in an

appropriate measure of financial security for each entity or function. The Statutory and Discretionary Reserves are maintained as required and consistent with current practice. The approval of alternative one will ensure that Metro Vancouver has a formal policy that outlines a prudent and risk based approach to the establishment, use and management of reserves.

The approval of alternative two will require that the financial implications be quantified accordingly depending on the direction provided.

SUMMARY / CONCLUSION

Reserves are a critical component of long term financial planning and management in ensuring a strong financial position. The approval of this reserves policy, as attached, will provide clear Board direction for the principles and requirements associated with the establishment, use and management of Metro Vancouver reserves. Staff recommend that the Board approve alternative one.

Attachments

1. *Operating, Statutory and Discretionary Reserves Policy (Doc #24116127)*
2. 2018 Projected Reserves Balances

24900500

OPERATING, STATUTORY AND DISCRETIONARY RESERVES

Effective Date:

Approved By: MVRD/GVWD/GVS&DD/MVHC

PURPOSE

To outline principles and requirements that guide the establishment, use and management of Metro Vancouver reserves.

DEFINITIONS

“Annual Surplus” means excess of revenues over expenditures for the current year.

“Legal Entity” means Greater Vancouver Water District (GVWD), Greater Vancouver Sewerage and Drainage District (GVS&DD), which includes the legal functions of Liquid Waste and Solid Waste, Metro Vancouver Housing Corporation (MVHC) and Metro Vancouver Regional District (MVRD).

“Statutory Functions” mean functions related to the Metro Vancouver Regional District, which include: Affordable Housing, Air Quality, Electoral Area, General Government, Labour Relations, Regional Global Positioning System (GPS), Regional Parks, Regional Planning, E911 Emergency Telephone Service, Regional Emergency Management and Sasamat Fire Protection Service

POLICY

Reserves are funds that are appropriated as a means of providing financial security against an unforeseen financial loss, such as a revenue shortfall and unexpected expenditures, or for meeting future financial obligations. They are a key element of Metro Vancouver’s long term financial sustainability and they provide a mechanism to ensure a strong financial position. Metro Vancouver reserves are categorized as Operating, Statutory or Discretionary.

Metro Vancouver’s Reserves Policy supports the following principles:

- Financial stability, security and sustainability
- Consistent with long term financial plans, Board and Corporate strategic goals
- In accordance with legal requirements under applicable legislation

In addition to these guiding principles, reserves shall be established and managed in accordance with the following:

- All reserve contributions and applications must be approved by the Board
- All reserve balances will earn interest at a rate based on Metro Vancouver’s average return on investments
- All reserves exclusively belong to a specific legal entity or statutory function and can only be applied to fund business activities of that legal entity or statutory function.
- Financial Services is responsible for the stewardship and oversight of all Metro Vancouver reserves.

1. OPERATING RESERVES

Operating Reserves are established for each legal entity and statutory function to serve as a measure of financial security should there be an unforeseen financial loss beyond the control of the organization.

A legal entity or statutory function's inherent risk of experiencing an unforeseen financial loss increases both with the level of business activity as well as the nature of that business activity. Operating expenditures serve as a measure of an entity or function's level of business activity; therefore, the greater the business activity the greater the risk of an unforeseen financial event. Risk of an unforeseen financial loss also increases with volatility associated with the business activity.

Minimum Reserve. The minimum required Operating Reserve amount for a legal entity or statutory function shall be determined as a percentage of the legal entity or statutory function's prior year operating expenditures net of reserve contributions, contributions to capital and debt service costs and is based on the inherent risk of incurring a financial loss. As noted above, the higher the level of inherent risk, the higher the required reserve minimum balance.

Operating Reserve balances must be maintained at the established minimum amounts in order to ensure security against unforeseen financial impacts as this financial security is paramount to financial sustainability. Should the Operating Reserve balance fall below the established minimum, the Operating Reserve must be replenished to the minimum level within two budget years.

Contributions to Reserve. Contributions to Operating Reserves are made through the appropriation of annual surpluses generated from operations within a legal entity and statutory function.

Usage of Reserve. The usage of Operating Reserve balances will only be contemplated for the funding of unforeseen revenue shortfalls or expenditures obligations where other sources of funding is not available.

a) **Greater Vancouver Water District (GVWD) Operating Reserve**

The required Operating Reserve for the Water Services function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

The GVWD is an entity whose primary revenue source is the sale of water based on a unit rate per cubic metre of water consumed within the region. The unit rate is set at a rate to cover annual expenditures and based on an estimated volume of overall regional consumption. The actual level of consumption, however, may vary from expectation due to many factors including weather, effectiveness of conservation measures and the implementation of watering restrictions. This potential volatility in consumption and that the majority of expenditures are not variable with the level of consumption and cannot easily be adjusted should there be a drop in consumption, results in the GVWD having a higher relative level of inherent risk associated with their business activities.

b) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Solid Waste

The required Operating Reserve for the Solid Waste function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

Solid Waste is a function whose primary revenue source is Tipping Fee revenue based on a unit rate per cubic tonne of waste disposed of within the region. The unit rate is set to cover annual expenditures and is based on an estimated volume of overall regional waste tonnage. The actual level of waste tonnage, however, may vary from expectation due to many factors including level of construction and demolition, effectiveness of waste diversion activities and waste migration. While some expenditures in Solid Waste are somewhat variable with waste volumes, many are fixed. This along with the potential volatility in waste volumes leads to Solid Waste having a higher relative level of inherent risk associated with their business activities.

c) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Liquid Waste

The required Operating Reserve for the Liquid Waste function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

Liquid Waste is a function whose primary revenue source is an annual sewer levy collected from member jurisdictions and as a result are low risk in terms of collection. While the majority of revenues in Liquid waste carry a high level of certainty, the nature of the business of collecting and treating sewage has operating risks including weather related overflows, impacts from power interruption and infrastructure failure. As a result, Liquid Waste has a moderate relative level of inherent risk associated with their business activities.

d) Metro Vancouver Housing Corporation (MVHC)

The required Operating Reserve for the Housing Corporation function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

The MVHC is reliant on tenant rents to support the annual expenditures to provide affordable housing. The level of rental revenue has some inherent risk of volatility due to factors including vacancy rates, tenant turnover and rental losses caused by required repairs and maintenance activities. The nature of the housing complexes being of wood construction, include a level of risk of unforeseen significant maintenance requirements. As a result, the MVHC has a moderate relative level of inherent risk associated with their business activities.

e) Metro Vancouver Regional District (MVRD)

The required Operating Reserve for each MVRD Statutory function is equal to 5% of net operating expenditures representing approximately one half of one month of operating costs.

The statutory functions of the MVRD are reliant on tax requisition collected from member jurisdictions and therefore, have low risk in terms of revenue collection. In addition, the MVRD statutory function's operating expenditures are relatively consistent annually and quite predictable. As a result, the MVRD statutory functions have a low relative level of inherent risk associated with their business activities.

SUMMARY OF OPERATING RESERVE MINIMUMS	
Legal Entity/Statutory Function	Operating Reserve Amount
Greater Vancouver Water District	15% of prior year's net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Solid Waste	15% of prior year's net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Liquid Waste	10% of prior year's net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Housing Corporation	10% of prior year's net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Regional District Affordable Housing Air Quality E911 Emergency Telephone Service Electoral Area Service General Government Labour Relations Regional Emergency Management Regional Global Positioning System Regional Parks Regional Planning Sasamat Fire Protection Service	5% of prior year's net operating expenditures (approximately 0.5 month of operating costs)

2. STATUTORY RESERVES

Statutory Reserves are established where reserves are required within a legal framework which governs their composition and application. Statutory Reserves are reserves set aside for a legal entity and statutory function for a specific purpose in accordance with the applicable terms and conditions within the establishing legal framework as follows:

- Legal statute
- Board approved bylaw
- Governing agreement with another level of government or entity

Examples of Statutory Reserves include Liquid Waste Development Cost Charges, Cultural Grants and Park Land Acquisition.

Contributions to Reserve. Contributions to Statutory Reserves are made through annual budget contributions and the appropriation of the annual surplus generated from operations in accordance with legal statute, Board approved bylaw, or governing agreement.

Usage of Reserves. The usage of Statutory Reserve balances will only be authorized for the purpose designated by the Statutory Reserve and must be withdrawn in accordance with legal statute, Board approved bylaw, or governing agreement.

3. DISCRETIONARY RESERVES

Discretionary Reserves are established by the Board for legal entities and statutory functions as an appropriation of annual surplus to meet a known or anticipated future financial obligation.

Contributions to Reserve. Contributions to Discretionary Reserves are made through the appropriation of the annual surplus generated from operations for a known or anticipated future financial obligation, or for general future usage in accordance with the priority sequence as outlined under “Appropriation of Annual Surplus.”

Usage of Reserves. The usage of Discretionary Reserve balances will fund expenditures as an additional annual revenue source to support Metro Vancouver’s goals and priorities in reducing the need for revenue from rates, levies and tax requisitions. The usage of Discretionary Reserves will be included, where applicable, within the five-year financial plan.

4. APPROPRIATION OF ANNUAL SURPLUS

After ensuring that all Operating Reserves meet the minimum balances as established under this Policy and that all requirements for Statutory Reserves and Discretionary Reserves are met, any annual surplus remaining will be utilized in accordance with the following priority sequence:

- I. **Fund capital expenditures or pay down existing debt. This is consistent with debt avoidance** and the mitigation of future financial obligations
- II. **Fund one-time expenditures.** This includes but is not limited to funding equipment purchases and consulting initiatives and projects.
- III. **Rate stabilization for a legal entity or statutory function.** This involves smoothing out utility rates, levies or tax requisitions resulting from operating budget expenditures. Usage of reserves for rate stabilization is only used in circumstances where priorities 1) and 2) are not applicable, or have been met. This application is discretionary and may not be applicable. If not applicable, then move to priority 4.
- IV. **Maintain as a Statutory or Discretionary Reserve.** This can represent an addition to an existing Statutory or Discretionary Reserve or the establishment of a new Discretionary Reserve based on new information regarding a future financial obligation.

Management of Reserves

When the Board has approved the use of reserves to fund expenditures, the funding must be spent for the intended purpose within the year of approval, or the following budget year.

Although reserves are to only be used for their intended purpose, there may be instances when short-term internal borrowing from reserves is financially beneficial or required. Internal borrowing is permitted to temporarily finance funding requirements to avoid external temporary borrowing or to fund emergencies as required, in accordance with the applicable legislation. If

BOARD POLICY

money from one reserve is used for temporary financing purposes, there must be repayment of the amount used to the reserve, plus interest within five years of borrowing.

Internal borrowing and transferring of funds from Reserves must be approved by the Board.

2018 PROJECTED RESERVE BALANCES

ATTACHMENT 2

	2017 RESERVE BALANCE	2017 SURPLUS	INTEREST	FUND CAPITAL DIRECTLY	TRANSFER TO/ FROM RESERVE	2018 NET BUDGETED CONTRIBUTIONS	2018 PROJECTED RESERVE BALANCE
OPERATING RESERVES							
WATER	15,982,208	17,212,251	434,393	(17,609,317)	-	-	16,019,534
LIQUID WASTE	19,973,308	8,741,782	457,745	(13,822,714)	-	-	15,350,121
SOLID WASTE	8,958,284	10,824,768	251,331	(6,838,401)	-	-	13,195,982
MVHC	1,834,915	3,854,319	113,785	-	(3,257,005)	-	2,546,014
AFFORDABLE HOUSING	-	288,140	5,763	-	(256,171)	-	37,731
AIR QUALITY	317,393	141,107	9,170	-	44,920	-	512,590
E911	656,889	128	13,140	-	(460,764)	-	209,394
ELECTORAL AREA A	-	95,587	1,912	-	(76,662)	-	20,837
GENERAL GOVERNMENT	1,986,007	1,173,247	63,185	-	(2,930,981)	-	291,458
LABOUR RELATIONS	1,676,503	232,975	38,190	-	(1,812,492)	-	135,176
REGIONAL EMERGENCY MANAGEMENT	-	-	-	-	-	-	12,350
GPS	762,781	141,621	18,088	-	(903,954)	-	18,536
REGIONAL PARKS	1,374,933	1,054,357	48,586	-	(1,062,911)	-	1,414,964
REGIONAL PLANNING	367,620	413,177	15,616	-	(645,556)	-	150,857
SASAMAT FIRE PROTECTION SERVICES	-	34,651	693	-	(22,687)	-	12,657
WEST NILE VIRUS	338,369	-	6,767	-	-	-	345,136
TOTAL OPERATING	54,229,210	44,208,110	1,478,362	(38,270,432)	(11,371,914)	-	50,273,336
DISCRETIONARY RESERVES							
WATER							
General Debt Reserve Fund	7,747,158	-	51,648	(7,798,806)	-	-	-
Lower Seymour Conservation Reserve	179,221	-	3,584	-	-	-	182,805
LIQUID WASTE							
Biosolids Inventory Reserve	16,288,678	-	325,774	-	-	-	16,614,452
General Debt Reserve Fund	57,227,817	-	381,519	(57,609,336)	-	-	-
Lions Gate Contingency	1,378,874	-	27,577	-	-	-	1,406,451
SOLID WASTE							
Solid Waste General Reserve	37,946,235	-	758,925	-	-	-	38,705,160
Landfill Post Closure Reserve	10,430,077	-	208,602	-	-	-	10,638,679
MVHC							
Capital Replacement Reserve	13,180,531	-	263,611	-	3,257,005	1,719,533	18,420,680
Capital Development Reserve	16,313,473	-	326,269	-	-	-	16,639,742
AIR QUALITY							
Air Quality General Reserve	3,556,291	-	71,126	-	(44,920)	-	3,582,497
E911							
E911 General Reserve	-	-	-	-	460,764	-	460,764
ELECTORAL AREA A							
Electoral Area General Reserve	1,545,827	-	30,917	-	76,662	-	1,653,406
GENERAL GOVERNMENT							
General Government General Reserve	1,094,951	-	21,899	-	2,930,981	-	4,047,831
LABOUR RELATIONS							
Labour Relations General Reserve	-	-	-	-	1,812,492	-	1,812,492
REGIONAL EMERGENCY MANAGEMENT (REM)							
REM General Reserve	290,040	-	5,801	-	(12,350)	-	283,491
REGIONAL PARKS							
Regional Parks Legacy Fund	2,611,206	-	52,224	-	-	-	2,663,430
REGIONAL PLANNING							
Regional Planning General Reserve	1,334,596	-	26,692	-	645,556	-	2,006,844
CENTRALIZED SUPPORT	20,427,696	-	408,554	-	-	-	20,836,250
FLEET VEHICLE RESERVE	5,111,494	-	102,230	-	-	798,982	6,012,706
TOTAL DESIGNATED	196,664,165	-	3,066,950	(65,408,142)	9,126,190	2,518,515	145,967,679
STATUTORY RESERVES							
WATER							
Laboratory Equipment Reserve	569,048	-	11,381	-	-	46,000	626,429
Sustainability Innovation Fund	11,235,806	-	224,716	-	-	723,000	12,183,522
LIQUID WASTE							
DCC Reserve Fund	287,702,326	-	5,754,047	-	-	-	293,456,373
Laboratory Equipment Reserve	465,739	-	9,315	-	-	95,788	570,842
Sustainability Innovation Fund	16,236,138	-	324,723	-	-	1,127,000	17,687,861
AFFORDABLE HOUSING							
Affordable Housing Reserve	-	-	-	-	256,171	1,000,000	1,256,171
ELECTORAL AREA A							
Community Works Reserve	407,490	-	8,150	-	-	115,834	531,474
GENERAL GOVERNMENT							
Sustainability Innovation Fund	11,291,125	-	225,823	-	-	347,000	11,863,948
Cultural Grants Reserve Fund	2,287,292	-	45,746	-	-	-	2,333,038
GPS							
GPS Reserve	-	-	-	-	903,954	30,000	933,954
REGIONAL PARKS							
Regional Parks Capital Reserve	8,508,725	-	170,175	-	1,062,911	(4,143,000)	5,598,811
Parkland Acquisition Reserve Fund	14,024,056	-	280,481	-	-	3,570,000	17,874,537
Delta Airpark Reserve	56,167	-	1,123	-	-	23,000	80,290
SASAMAT FIRE PROTECTION SERVICES							
Capital Reserve	625,734	-	12,515	-	22,687	52,100	713,036
Communications Reserve Fund	54,291	-	1,086	-	-	-	55,377
Emergency Equipment Reserve Fund	25,245	-	505	-	-	-	25,750
SELF-INSURANCE FUND	2,580,401	-	51,608	-	-	-	2,632,009
TOTAL STATUTORY	356,069,583	-	7,121,392	-	2,245,724	2,986,722	368,423,421
GRAND TOTAL		44,208,110	11,666,704	(103,678,573)	-	5,505,237	564,664,436